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Tax relief to stimulate commercialization of intellectual property made in Québec

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Inspired by a worldwide trend to encourage the growth of innovation, Québec has recently announced a new tax relief measure for innovative companies. Thus, the Québec government is instituting an "innovative companies deduction" (ICD). The goal of this initiative is to "ensure that innovations developed by Québec businesses yield commercial activity in Québec."

As of January 1, 2017, the deduction will give manufacturing firms that market a patented product developed in Québec a 4% tax rate on revenue attributable to a patent (rather than 11.8%; conditions apply). The main conditions for eligibility set forth in the Economic Plan (see links below) are as follows:

Eligible companies Companies operating a business in Québec:

with more than $15 million in paid-up capital;
whose Québec activities primarily consist of manufacturing and processing activities.

Eligible revenue Revenue from an eligible patent included in a good manufactured in Québec.

Eligible patent A patent or patent application:

held by a corporation with an establishment in Québec;
protecting an invention developed with the help of Québec R&D tax credits;
filed after March 17, 2016.

Rate The effective tax rate on eligible income is 4%. The income attributable to the patent cannot exceed 50% of the revenue from the good manufactured in Québec. The 4% tax rate will be reversed and taxes paid back to the government if the patent application is not granted in five years from filing or the patent is invalidated.

In addition to the existing system of R&D tax credits, this new program appears to be an incentive to take such innovation to market:

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“Whereas R&D tax credits are an incentive for corporations to invest more in research, the ICD constitutes support for taking the results of the research through to the marketing stage.”

This is certainly positive and encouraging news for many Québec companies. To benefit from this measure, companies will have to set up distinct accounting for revenue derived from the patented invention and will need to be approved for the lower tax rate.

We can provide patent advice in relation to this new measure. Please contact us for more details.

See Section B – 5.2 of the Economic Plan at: http://www.budget.finances.gouv.qc.ca/budget/2016-2017/en/documents/EconomicPlan.pdf (particularly pages 172-176 of the .pdf document)

See also Section A – 2.5 of the Additional Information 2016-2017 at: http://www.budget.finances.gouv.qc.ca/budget/2016-2017/en/documents/AdditionalInfo.pdf (particularly pages 53-60 of the .pdf document)

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