The 2020-2021 Quebec Budget: New Measures to Promote Innovation!

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Quebec's Minister of Finance tabled his budget for 2020-2021, titled *Your Future, your Budget*[1], on March 10. Among the new measures introduced by the government, new tax incentives for innovation and the commercialization of Quebec intellectual property were announced.

The incentive deduction for the commercialization of innovations: establishing the most competitive tax rate in North America

The Quebec government is committed to promoting research and development (R&D) and accelerating the development of innovative products through a highly competitive tax environment. The *incentive deduction for the commercialization of innovations* (the **"IDCI"**) will allow businesses to benefit from a combined tax rate of 17% on eligible income.

Businesses that have an establishment in Quebec, have incurred R&D expenses there and commercialize intellectual property ("**IP"**) in Quebec will have their revenues from the sale or rental of goods, services and royalties from such IP taxed in Quebec at an effective rate of 2%.

IP covered by the IDCI includes software protected by copyrights, patents, certificates of supplementary protection for drugs and plant breeders' rights.

The IDCI also replaces the *deduction for innovative companies* as ofJanuary 1, 2021. Companies eligible for that deduction will be eligible for the IDCI.

The synergy capital tax credit: investing in start-ups

The *synergy capital tax credit* is designed to encourage businesses to invest in innovative SMBs with high growth potential, more commonly known as "start-ups."

A business corporation with a permanent establishment in Quebec that is not primarily engaged in financing or investing in businesses may receive a non-refundable tax credit equal to 30% of the value of its eligible investment, up to a maximum of $750,000 per year, for a total tax credit of

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$225,000 per year.

An eligible investment is an equity participation that does not result in control of an eligible SMB, which the investing corporation deals with at arm's length.

An eligible SMB is a Canadian-controlled private corporation with a permanent establishment in Quebec, with paid-up capital of less than $15 million and gross income of less than $10 million, operating in one of the following sectors:

Green technology;
Information technology;
Life sciences;
Innovative manufacturing;
Artificial intelligence.

Corporations claiming the synergy capital tax credit will have to hold the shares of the eligible SMB for a minimum period of 5 years. Start-ups interested in obtaining the designation of eligible SMB will have to submit an application to Investissement Québec.

The investment and innovation tax credit: Modernizing SMBs

The *investment and innovation tax credit* (the **"C3i"**) is designed to encourage businesses in all sectors to invest in their modernization, particularly in digitization and the use of leading-edge technology. A credit of 10%, 15% or 20%, determined according to the economic vitality index of the area where the investments are made, will be applicable for the acquisition of:

Manufacturing and processing equipment;
Computer hardware;
Management software packages.

The C3i will apply to acquisitions made before January 1, 2025, and will be fully refundable for SMBs[2]. Businesses with total assets and gross income of $100 million or more will also have access to this credit, although it will not be refundable.

Eligible expenses for the C3i will be amounts exceeding $5,000 for the acquisition of computer hardware or management software packages and amounts exceeding $12,500 for the acquisition of manufacturing and processing equipment.

Businesses involved in the distribution of such hardware and software packages would certainly benefit from informing their customers that the acquisition of their products is potentially eligible for the C3i.

Businesses located in resource regions and still benefiting from the *tax credit to foster the acquisition of manufacturing and processing equipment* introduced in 2008 will be able to choose to continue to benefit from this credit or claim the C3i.

Conclusion

Quebec's tax landscape is full of opportunities for innovators and creators of leading-edge technology. We should also mention the enhancement of R&D tax credits that promote collaboration between private businesses and research institutions that contribute to the vitality of Quebec's knowledge economy. If you are a company involved in R&D and IP commercialization in Quebec, the professionals of Lavery's intellectual property and taxation teams will be able to support you throughout your projects.

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1. Ministère des Finances, Budget 2020-2021, "Your Future, your Budget," City of Québec, Government of Quebec

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2. The credit repayment rate decreases linearly based on an SMB's total assets and gross income when they exceed $50 million but are less than $100 million.

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