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2023 Quebec budget: tax holiday for investments in critical and strategic minerals

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On March 21, 2023, Quebec's Minister of Finance tabled his budget for the 2023-2024 fiscal year. One of the budget's key measures is the introduction of a new tax holiday in connection with major investment projects.

At first glance, the new measure does not appear to be specifically aimed at the mining industry, but some mining companies involved in the extraction of critical and strategic minerals and planning substantial investments in the near future could greatly benefit from it.

Under the new tax exemption, a corporation or partnership that carries out an investment project of more than $100 million in Quebec will be eligible, under certain conditions, for an income tax holiday and a holiday from the employer contribution to the Health Services Fund.

As far as income tax is concerned, this new 10-year tax holiday consists of a deduction in the calculation of the company's taxable income. The deduction is calculated by applying a rate of 15%, 20% or 25% to the cumulative total of eligible project expenditures. Since this tax measure is intended to promote investment outside major urban centres, the rate will vary according to the project's location, ranging from 15% for projects in areas with high economic vitality, to 20% for projects in areas with intermediate economic vitality and up to 25% for those in areas with low economic vitality. The higher rates of 20% and 25% are more likely to apply to mining projects, which are generally located in remote areas with lower economic vitality.

The critical and strategic minerals identified in the context of this measure are the following: antimony, bismuth, cadmium, caesium, copper, tin, gallium, indium, tellurium, zinc, cobalt, rare-earth elements, platinum-group elements, graphite (natural), lithium, magnesium, nickel, niobium, scandium, tantalum, titanium and vanadium.

Let's briefly consider the example of a mining company carrying out a major investment project for lithium mining in the Nord-du-Québec administrative region, designated by the Quebec government as a territory with intermediate economic vitality.

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During the investment phase, while the mine is being developed and built, the company incurs $200 million worth of eligible expenditures, which are capital expenditures for new mining equipment and heavy machinery for lithium extraction and processing.

Evidently, the company will probably sustain a loss during the investment phase, and, because it has no taxable income, it will not be able to immediately benefit from the tax holiday. However, should the company have taxable income of $50 million in year 5, after four years of investment and mine development, it will be able to deduct $40 million of this taxable income under the new tax holiday, reducing its taxable income to $10 million for that year. This $40 million deduction is based on the application of the 20% rate for territories with intermediate economic vitality to the $200 million of eligible expenditures for the mining project.

Another point relevant to the mining industry is that the income tax holiday will apply only to tax payable under the provisions of the *Taxation Act*. In other words, this tax holiday will not reduce the amounts payable under the *Mining Tax Act*.

With respect to the Health Services Fund, companies will generally be eligible for an employer contribution holiday on wages paid to employees for pay periods falling within the exemption period for major investment projects.

In order to benefit from this new tax holiday, companies will have to obtain an initial certificate, as well as annual attestations issued by the Quebec Minister of Finance.

Our team of professionals specializing in mining and tax law is available to answer all your questions regarding this new measure and to assist you in your mining investment projects in Quebec.

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