

BULLETIN D'INFORMATION

2002-12
December 12, 2002

Subject: Freeze and reduction in space available for carrying out activities in certain designated sites

This information bulletin provides a detailed description of the adjustments made to the physical limits of sites designated for carrying out certain activities, announced today by the Deputy Premier and Minister of Finance, the Economy and Research, Pauline Marois, in the document titled "Vers le plein emploi".

For information concerning this information bulletin, contact the Secteur du droit fiscal et de la fiscalité at (418) 691-2236.

The French and English versions of this bulletin are available on the website of the ministère des Finances, de l'Économie et de la Recherche at: www.mfer.gouv.qc.ca

Paper copies are also available, on request, from the Direction générale des consultations et des affaires publiques, at (418) 528-9321.

FREEZE AND REDUCTION OF SPACE AVAILABLE FOR CARRYING OUT ACTIVITIES IN CERTAIN DESIGNATED SITES

Québec's tax legislation includes a number of measures that favour businesses that carry out scientific research and experimental development (R&D) and other forms of innovation in certain sectors, in particular those associated with the knowledge-based economy. Examples are the measures relating to R&D and those relating to carrying out eligible activities in certain designated sites, i.e. measures relating to information technology development centres (CDTIs), biotechnology development centres (CDBs), the Cité du multimédia, the Centre national des nouvelles technologies de Québec (CNNTQ), and new economy centres (CNEs).

Essentially, the fiscal measures relating to the carrying out of activities in certain designated sites are divided into two types: those relating to the carrying out of an innovative project and those relating to the carrying out of activities other than in the course of carrying out an innovative project (specified activities). These fiscal measures were introduced over many years and the associated refundable tax credits were initially treated as distinct tax credits. In this regard, a simplification of the tax assistance relating to the carrying out of activities in certain designated sites was announced on December 20, 2001.¹

To further stimulate the development of certain activities relating to information technologies and encourage companies to locate and expand in the Montréal and Québec City regions, a refundable tax credit was introduced regarding e-business activities carried out in certain designated sites, namely the Montréal E-Commerce Zone and the CNNTQ.

Lastly, another fiscal measure specifically applicable to a designated site, namely, E-Commerce Place, allows a corporation that carries out certain activities there to receive tax assistance consisting of either a refundable tax credit or refundable credit of employer contributions to the Health Services Fund (HSF).

¹

Bulletin d'information 2001-13.

□ **Fiscal measures applicable to the carrying out of activities in these designated sites**

— **Fiscal measures relating to the carrying out of an innovative project in certain designated sites**

The fiscal measures relating to the carrying out of an innovative project in a designated site enable a corporation that carries out an innovative project in the information and communications technology sector in a CDTI or a CNE, or in the biotechnology sector in a CDB, to receive a five-year tax holiday regarding income tax, the tax on capital and the employer contribution to the HSF. Such a corporation may also receive refundable tax credits for salaries paid to eligible employees as well as for the acquisition or leasing of eligible specialized equipment. Furthermore, a foreign specialist employed by such a corporation and whose duties are almost exclusively attributable to eligible activities, may receive, for five years, an exemption from tax on his income from such employment.

Lastly, a corporation that carries out an innovative project in the biotechnology sector in a CDB may also claim a refundable tax credit regarding eligible rent expenses relating to short-term rental of eligible specialized facilities.

— **Fiscal measures relating to the carrying out of specified activities in certain designated sites**

The fiscal measures relating to the carrying out of specified activities in a designated site enable a corporation that carries out such activities in a CNE, a CDTI, the Cité du multimédia or the CNNTQ, to claim a refundable tax credit regarding the salaries paid to specified employees. Furthermore, a foreign specialist employed by such a corporation and whose duties are almost exclusively attributable to specified activities may receive, for five years, an exemption from tax on his income from such employment.

In addition, most sectors of the knowledge-based economy are activity sectors eligible for the tax assistance specifically applicable to corporations that carry out specified activities in a CNE, including the new information and communications technology sector and the biotechnology sector.

— **Fiscal measures relating to the carrying out of eligible activities in E-Commerce Place**

E-Commerce Place, located in downtown Montréal, was created on May 11, 2000. Briefly, eligible corporations that move into E-Commerce Place can receive tax assistance with respect to eligible salaries they incur and pay to eligible employees to carry out eligible activities.

The rate of this tax assistance is generally 35% but may be reduced beginning in the sixth year of operation of an eligible corporation in E-Commerce Place, if the eligible corporation has not created a minimum number of jobs in Québec.

Initially, this tax assistance consisted of a refundable tax credit. However, in the Supplement to the Government's Budgetary Policy of March 19, 2002, an election was introduced allowing an eligible corporation to elect to claim either the refundable tax credit or a refundable credit of employer HSF contributions. The election is possible regarding taxation years of an eligible corporation ending after March 19, 2002.

— **Fiscal measures relating to e-business activities carried out in certain designated sites**

The refundable tax credit for e-business activities carried out in certain designated sites was introduced in the November 1, 2001 Budget Speech. Adjustments were made to this tax credit on December 20, 2001² as well as in the Supplement to the Government's Budgetary Policy on March 19, 2002.

Generally speaking, this refundable tax credit, whose rate is 35%, is granted with respect to the increase in payroll attributable to eligible employees of an eligible corporation that moves into designated premises located either in the Montréal E-Commerce Zone or in the CNNTQ, regarding five consecutive calendar years.

Moreover, a tax holiday is granted to foreign specialists employed by an eligible corporation that carries on a certified business in such a designated site. A specialist employed by such a corporation can thus claim, for a period of five years, an exemption from tax on his income from such employment.

² *Ibid.*

For the purposes of the fiscal measures regarding e-business activities carried out in certain designated sites, the designation of premises located in the Montréal E-Commerce Zone is the responsibility of the Bureau du commerce électronique, while premises located in the CNNTQ must be designated by Investissement Québec. These two organizations ensure that the total floor space of designated premises does not exceed the limits that have been set.

☐ **Adjustment to the physical limits of designated sites**

The totality of these designated sites includes a physical limit within which the various activities can be carried out and thus enable a corporation to claim the tax assistance applicable to a specific measure. In most cases, the physical limit is expressed as a maximum floor space, in square metres, that can be designated in a specific location, a building or within a perimeter bounded by streets. However, in the case of the Cité du multimédia, this physical limit is only expressed geographically by a specific group of cadastral designations located in downtown Montréal.

The physical limits applicable to each designated site were initially set on the basis of the needs identified at their implementation. Adjustments were made according to the results obtained. For many fiscal measures, the maximum authorized floor space was increased to meet the demands of the many corporations wishing to move into these designated sites and thus receive tax assistance. An example is the CNEs, whose maximum authorized floor space gradually rose from 45 000 square metres to 150 000 square metres.

Most of these fiscal measures have achieved the objectives for which they were set up. Accordingly, the physical limits applicable to each of these fiscal measures will be permanently set to correspond to the space currently or in the process of being used. For some fiscal measures, this will mean freezing the physical limits currently stipulated while for others, the maximum authorized limit will be reduced. It should be specified that in each case, this freeze or reduction, as the case may be, will not affect the space currently designated and should be sufficient to meet the needs of corporations that have submitted, prior to the date of publication of this information bulletin, an application regarding the carrying out of activities in these designated sites.

— **CDTIs**

The first sites to be designated for the purposes of these fiscal measures were the CDTIs in Hull, Laval, Montréal, Sherbrooke and Québec City. These sites were designated by the Minister of Finance, the Economy and Research and a maximum floor space was allocated to each of them.

No more CDTIs will be designated and there will be no further increase in the maximum floor space allocated to each CDTI.

— **CDBs**

The first CDB was designated in Laval in the March 29, 2001 Budget Speech and was allocated a maximum floor space. Other CDBs in Sherbrooke, St-Hyacinthe and Lévis were subsequently designated and a maximum floor space was allocated to each of them.

The target field for CDBs is biotechnology since these sites are dedicated exclusively to this sector. The objectives for which this fiscal measure was set up have yet to be achieved in this sector.

Accordingly, in the future, other CDBs may be designated elsewhere in Québec, or the maximum floor space of the currently designated CDBs may be increased.

— The CNNTQ

The CNNTQ is located in downtown Québec City and is bounded by a specific perimeter. Buildings within this perimeter may be designated for the purposes of this fiscal measure. The floor space that may be designated is currently limited to 47 900 square metres.³ The Minister of Finance, the Economy and Research is responsible for designating the perimeter of the CNNTQ as well as setting the maximum floor space that may be designated. Investissement Québec is responsible for the official designation of premises. Investissement Québec must accordingly ensure that the official designation of rental premises at no time exceeds the limit set by the Minister of Finance, the Economy and Research.

³

It is worth noting that the CDTI de Québec now consists of a general designation of rental premises that must not exceed total floor space of 10 700 square metres, that may be located in any designated building of the CNNTQ. Accordingly, Investissement Québec must ensure that the designation of rental premises for this CDTI at no time exceeds the limit of 10 700 square metres. In addition, this floor space of 10 700 square metres is not included in the available floor space of 47 900 square metres of the CNNTQ that may be designated. Accordingly, it is added thereto.

Furthermore, the floor space of the CNE de Québec is divided into two parts. The first part can be designated from the floor space of 10 700 square metres of the CDTI de Québec. In this case, the designation encroaches on the floor space of 10 700 square metres of the CDTI de Québec but not on the floor space of 47 900 square metres available for the CNNTQ. The second part of the CNE de Québec consists of additional floor space of 7 500 square metres that can be designated within the perimeter of the CNNTQ. In this case, the designation does not encroach on the floor space of 10 700 square metres of the CDTI de Québec but encroaches on the floor space of 47 900 square metres available for the CNNTQ. Moreover, this additional floor space is not available for corporations that wish to receive assistance applicable to corporations that carry out an innovative project. Accordingly, the floor space available to such corporations remains limited to 10 700 square meters, i.e. the floor space of the CDTI de Québec.

Lastly, a portion of the floor space of 47 900 square metres available for the CNNTQ can be designated for the purposes of another fiscal measure, namely the refundable tax credit for e-business activities carried out in certain designated sites.⁴ The parameters of this tax credit are very different from those of the tax credit available to corporations that carry out specified activities in certain designated sites. However, space in the CNNTQ that is designated for the purposes of the refundable tax credit for e-business activities carried out in certain designated sites encroaches on the floor space of 47 900 square metres available for the CNNTQ. Accordingly, the floor space available for carrying out activities eligible for the tax assistance specifically applicable to the CNNTQ or to CNEs and, in the latter case, other than by using the floor space of 10 700 square metres of the CDTI de Québec, as well as for carrying on a certified business for the purposes of the refundable tax credit for e-business activities carried out in certain designated sites, is limited to the 47 900 square metres available for the CNNTQ.

The floor space of 47 900 square metres of the CNNTQ will not be increased.

— **CNEs**

CNEs are located in each region of Québec. In a given region, the same CNE may be established in more than one urban centre, according to the region's needs. The total floor space available for all regions of Québec is 150 000 square metres and the Minister of Finance, the Economy and Research is responsible for determining the maximum floor space that may be designated. Investissement Québec is responsible for designating the buildings and floor space attributable to each region. Accordingly, Investissement Québec must ensure that the official designation of rental premises at no time exceeds the limit of 150 000 square metres⁵ set by the Minister of Finance, the Economy and Research.

The overall floor space of 150 000 square metres will not be increased.

⁴ Note that the refundable tax credit for e-business activities carried out in certain designated sites is also affected by the adjustments made to the Montréal E-Commerce Zone, as indicated below.

⁵ However, this overall floor space of 150 000 square metres does not include the portions of the floor space of the CDTIs in Hull, Laval, Montréal, Sherbrooke and Québec City, or of the CDBs in Laval, Sherbrooke, St-Hyacinthe and Lévis, that may be used to house corporations that wish to carry out activities eligible for the tax assistance applicable to CNEs. This overall floor space of 150 000 square metres also does not include the additional floor space of 7 500 square metres of the CNE de Québec that may be designated within the perimeter of the CNNTQ and that encroaches on the floor space of 47 900 square metres available for the CNNTQ.

— **The Cité du multimédia**

The Cité du multimédia is located near the Old Port of Montréal, in a quadrilateral formed by de la Commune, Duke, William and King streets. The 25 buildings designated for the purposes of this fiscal measure are located within the quadrilateral. The initial designation of these buildings was not subject to a limitation in terms of square metres. However, the rental capacity of the designated buildings, which amounts to roughly 125 000 square metres, now determines the maximum rental floor space of the Cité du multimédia.

The precise description of the first 22 buildings, i.e. sites 1 to 22, was given in an appendix to Bulletin d'information 98-3 released on June 23, 1998, while that of the last three buildings, i.e. sites 23 to 25, was given in an appendix to Bulletin d'information 98-8 released on December 22, 1998.

The designation of the Cité du multimédia is modified by withdrawing sites 4, 16, 17 and 21. Accordingly, the rental capacity of the designated buildings will be roughly 110 000 square metres.

— **E-Commerce Place**

E-Commerce Place is located in downtown Montréal and was initially to consist of buildings to be constructed in the quadrilateral formed by De la Montagne, Saint-Antoine and Lucien L'Allier streets and René-Lévesque boulevard, in addition to three office towers to be built and linked to the Bell Centre.

A brief description of the buildings as well as a sketch showing the site of the buildings were appended to Bulletin d'information 2000-3 released on May 11, 2000. The technical description of the buildings that make up E-Commerce Place is also available from the Bureau du commerce électronique.

In the November 1, 2001 Budget Speech, the rental space available in E-Commerce Place was reduced to 139 500 square metres. It was stipulated that E-Commerce Place would be located in downtown Montréal and consist of buildings to be constructed in a quadrilateral formed by De la Montagne, Saint-Antoine and Lucien L'Allier streets and René-Lévesque boulevard. The new designation consisted of buildings designated by the letters A to G in the sketch appended to Bulletin d'information 2000-3 released on May 11, 2000.

The rental space available in E-Commerce Place, namely the maximum floor space that can house corporations enjoying the tax assistance, will again be reduced from 139 500 square metres to 111 600 square metres. Accordingly, the new designation of E-Commerce Place will consist of buildings designated by the letters A, B and a part of C in the sketch appended to Bulletin d'information 2000-3 released on May 11, 2000. In other words, the buildings designated by the letters D, E, F, G and a part of C will no longer be part of E-Commerce Place. The technical description of the buildings that make up E-Commerce Place will be available from the Bureau du commerce électronique.

— **Montréal E-Commerce Zone⁶**

Currently, only premises located in the buildings within the Montréal E-Commerce Zone can be designated by the Bureau du commerce électronique. The perimeter of the Zone corresponds to the territory defined in section 1 of the *By-law concerning subsidies for the rehabilitation of lots in the downtown core*.⁷ However, the buildings of the Cité du commerce électronique and the designated buildings of the Cité du multimédia are not part of the Zone⁸.

⁶ Note that the refundable tax credit for e-business activities carried out in certain designated sites is also affected by the clarifications concerning the floor space of the CNNTQ, as indicated above.

⁷ Chapter S-8.3 of the Revised By-laws of the City of Montréal.

⁸ In this regard, the adjustments made to the designations of E-Commerce Place and the Cité du multimédia, although they increase the available area of the Zone, will not affect the total floor space that could be designated in this Zone.

Furthermore, the Bureau du commerce électronique must ensure that the total floor space of designated premises in the Montréal E-Commerce Zone at no time exceeds 186 000 square metres.

This total floor space of 186 000 square metres is reduced to 111 600 square metres.