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# TAX ASSISTANCE FOR SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT

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ISBN 978-2-550-89751-4 (PDF)

Legal deposit – Bibliothèque et Archives nationales du Québec, 2021

# SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT ACTIVITIES CARRIED OUT IN QUÉBEC CAN GIVE BUSINESSES IN CANADA ACCESS TO VARIOUS TAX ASSISTANCE MEASURES.

This document will help you claim the deductions and refundable tax credits to which you may be entitled.

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# INTRODUCTION

Scientific research and experimental development (R&D) is a cornerstone of economic activity in Québec. In order to promote R&D in Québec, the Québec government has implemented a number of measures, including the following tax credits:

- the tax credit for salaries and wages (R&D);
- the tax credit for university research or research carried out by a public research centre or a research consortium;
- the tax credit for private partnership pre-competitive research;
- the tax credit for fees and dues paid to a research consortium.

This document is intended for any taxpayer that is not a tax-exempt taxpayer, a controlled corporation or a tax-exempt corporation pursuant to sections 1029.6.1, 1029.8.1 and 1029.8.9.0.2 of the *Taxation Act*; that carries on a business in Canada; and that carries out R&D, or has R&D carried out on its behalf, in Québec. It contains general information regarding the tax measures relating to R&D in Québec, as well as information on claiming deductions for incurred R&D expenditures and the tax credits for R&D, including the type of information to be provided when making an application and the forms to be filed.

For more information, consult the relevant statutes and regulations or our website at **revenuquebec.ca**.

# WHAT IS R&D?

Under the *Taxation Act*, scientific research and experimental development (R&D) is the systematic investigation or search that is carried out in a field of science or technology by means of:

- basic[1] or applied[2] research carried out for the advancement of scientific knowledge;
- experimental development carried out in order to achieve technological advancement for the purpose of:
  - creating new materials, products, devices or processes, or
  - improving existing ones, even incrementally.

Québec and federal legislation are harmonized for the definition of "R&D" and the R&D expenditures that can be deducted in calculating the taxpayer's net income.

## Eligible R&D work

Eligible R&D work includes work related either to basic and applied research or to experimental development, as well as support work that directly supports basic and applied research or experimental development and that is carried out according to R&D needs.

1. Basic research is work carried out for the advancement of science without any practical application in mind.
2. Applied research is work carried out for the advancement of science with a practical application in mind.

| Eligible support work | Non-eligible work |
|---|---|
| Work related to the activities below is eligible:<br>• engineering<br>• design<br>• operations research<br>• mathematical analysis<br>• computer programming<br>• data collection<br>• testing<br>• psychological research | Work related to the activities below is not eligible:<br>• market research or sales promotion<br>• quality control or routine testing of materials, products, devices or processes<br>• research in the social sciences or the humanities<br>• prospecting, exploring or drilling for, or producing minerals, petroleum or natural gas<br>• the commercial production of a new or improved material, device or product, or the commercial use of a new or improved process<br>• style changes<br>• routine data collection[3] |

## Scientific review of R&D projects

Under an agreement reached in 1994 between Revenu Québec and the Canada Revenue Agency (CRA) (which were known at the time as the Ministère du Revenu du Québec and the Canada Customs and Revenue Agency), the CRA is responsible for carrying out scientific reviews of R&D projects.

Under the CRA's policy, which Revenu Québec follows, research and technology advisors must answer the following five questions to determine whether work constitutes R&D.

1. Was there a scientific of technological uncertainty?
2. Were hypotheses formulated specifically to reduce or eliminate the uncertainty?
3. Was the overall approach consistent with a systematic investigation or search, which includes formulating and testing the hypotheses by means of experiment or analysis?
4. Was scientific or technological advancement the goal of the overall approach?
5. Were the hypotheses tested and the results of those tests recorded as the work progressed?

These questions follow the progression of R&D work, from identifying the uncertainty, through carrying out the work aimed at solving it, to the resulting advancement. They are also interrelated, with questions 1 and 4 looking at why the work was done and questions 2, 3, and 5 looking at how. As a result, all five questions should be considered as a whole for all the work being evaluated.

For work to constitute R&D, the answer to all five of the questions must be "yes."

Research and technology advisors also assess the R&D work to determine whether it meets the eligibility criteria of CRA and Revenu Québec programs. The criteria are recognized worldwide by the Organisation for Economic Co-operation and Development (OECD).

The CRA then confirms whether the projects are eligible so that the tax credits to which the taxpayer is entitled can be granted. An application will be processed only once we have received confirmation from the CRA that the R&D work meets the eligibility criteria.

3. Routine data collection is part of a taxpayer's normal commercial activities and is therefore not considered eligible R&D work. Only data collection that is proportional to the R&D needs and directly supports basic and applied research or experimental development is eligible.

# DEDUCTION OF R&D EXPENDITURES

Under the *Taxation Act*, taxpayers can deduct R&D expenditures from their income for a given taxation year, subject to certain conditions.

## Qualified expenditures

In general, only **current expenditures** can be deducted.

"Current expenditures" are the expenditures made by a taxpayer, excluding:

- expenditures made by the taxpayer for the acquisition from a person or partnership of a property that is a capital property of the taxpayer; or
- expenditures made by the taxpayer for the use of, or the right to use, property that would be capital property of the taxpayer if it were owned by the taxpayer.

Current expenditures include:

- salaries and wages paid to employees whose activities are directly related to R&D, such as researchers, technologists and assistants with technical training, as well as those paid to R&D support staff (see the note below).
- expenditures relating to the provision of premises, facilities or equipment used for conducting R&D activities;
- the cost of materials consumed or transformed in R&D activities;
- expenditures made under R&D contracts awarded to contractors and subcontractors;
- payments made to a third party such as a university, college, research institute or tax-exempt organization resident in Canada, where the taxpayer has the right to use the results of the research conducted by the third party.

NOTE

Individuals considered to be directly engaged in R&D activities are those who conduct experiments, tests and analyses, those who prepare the equipment and materials necessary for carrying out those experiments, tests and analyses, and those who record measurements, make calculations, prepare charts, graphs and computer programs, conduct surveys and interviews, etc.

An employee's salary or wages must be determined according to the time he or she spends on R&D. However, if 90% or more of the employee's time is spent on R&D, the full amount of his or her salary or wages is deductible.

The amount of the qualified expenditures that a taxpayer made to a third party that carries on R&D activities on the taxpayer's behalf must be reduced by the amount of any related expenditure that the third party incurred and that is not a current expenditure. The third party must inform the taxpayer in writing of the amount of the reduction without delay if requested by the taxpayer and in any other case no later than 90 days after the end of the calendar year in which the expenditure was made.

Note that capital expenditures made after December 31, 2013, can generally no longer be deducted as qualified R&D expenditures.

The following expenditures do not qualify as R&D expenditures:

- expenditures incurred for the general administration or management of the business, except in certain specific cases;
- expenditures incurred for the maintenance or upkeep of premises or equipment, to the extent that they are not related to R&D activities;
- remuneration based on profits, or bonuses paid to specified employees (generally, shareholders who hold at least 10% of the shares of a given corporation);
- expenditures incurred to purchase or rent animals, other than laboratory animals within the meaning of the regulations;
- expenditures made to acquire rights in or arising out of scientific research and experimental development, in accordance with section 228 of the *Taxation Act*.

The taxpayer must send us supporting documents or relevant information to show that the current expenditures were incurred for R&D activities. The taxpayer must also specify the type of expenditures incurred, explain how the taxpayer determined which of them were R&D expenditures and justify any calculations. Amounts not related to R&D are not qualified expenditures.

## Calculation methods

Two methods can be used to determine the amount of qualified R&D expenditures: the traditional method and the proxy method.

### Traditional method (formerly called the "regular method")

More expenditures—for example, general expenditures—can be taken into account under the traditional method than under the proxy method.

A taxpayer that calculates the amount of eligible R&D deductions using the traditional method can include certain general expenditures as qualified expenditures. General expenditures may include expenditures related to office supplies and the salaries or wages of certain employees, provided the taxpayer shows that part of the expenditures is related to R&D activities and that the expenditures would not have been incurred had no R&D activity been carried out.

### Proxy method

The proxy method is simpler but more restrictive, as it takes into account only those expenditures that are generally associated with and directly related to R&D activities.

For example, certain current expenditures are excluded from the calculation when using the proxy method. Excluded expenditures may include office supplies and the salaries and wages of certain employees not assigned to tasks related to the technological aspects of R&D.

Regardless of the calculation method used, the following amounts must be subtracted from the qualified expenditures:

- any form of government assistance (for example, a grant or forgivable loan) or non-government assistance received or receivable;
- the federal investment tax credit for R&D expenditures granted for the year preceding the taxation year in question; and
- the R&D tax credits granted by Revenu Québec for R&D expenditures incurred in a taxation year.

Expenditures that are not deducted in a given taxation year can be accumulated and carried forward to subsequent years.

For more information, see form RD-222-V, *Deduction Respecting Scientific Research and Experimental Development Expenditures*.

| **Sample calculation of R&D expenditures**<br>**Qualified expenditures** | | **Traditional method** | | **Proxy method** |
|---|---|---|---|---|
| Salaries and wages paid to employees whose activities are directly related to R&D to carry out R&D work | | $100,000 | | $100,000 |
| Cost of materials consumed | + | $15,000 | + | $15,000 |
| Payments made to subcontractors that directly carry out R&D work for the taxpayer | + | $40,000 | + | $40,000 |
| General expenses: | | | | |
| • Office supplies | + | $15,000 | | |
| • Support-staff salaries and wages | + | $12,000 | | |
| Total expenditures | = | **$182,000** | = | **$155,000** |
| Federal investment tax credit granted in a previous year | – | $25,000 | – | $25,000 |
| R&D tax credits granted by Revenu Québec for the taxation year | – | $24,000 | – | $24,000 |
| Total deductible expenditures for the year | = | **$133,000** | = | **$106,000** |

# R&D TAX CREDITS

All tax credits related to R&D are refundable: if the taxpayer has no income tax payable, an amount corresponding to the tax credits to which the taxpayer is entitled will be paid to the taxpayer; however, if the taxpayer does have income tax payable, the tax credits will reduce the amount of income tax the taxpayer owes or the amount of the taxpayer's instalment payments of income tax.

## Tax credit for salaries and wages (R&D)

If a taxpayer carries on a business in Canada and carries out R&D or has R&D carried out on its behalf in Québec, the taxpayer can claim a tax credit for the salaries and wages or for the consideration paid in Québec.

"Salaries and wages" means the remuneration paid to an employee for work done by the employee in Québec.

The following amounts do not give entitlement to the tax credit for salaries and wages (R&D) but can give entitlement to other R&D tax credits:

- the total of the amounts paid under a university research contract or an eligible research contract (for example, a contract with a research consortium);
- the total of the amounts paid in conjunction with a private partnership precompetitive research project; and
- the amounts paid as fees or dues to a research consortium.

However, a taxpayer can claim the tax credit for salaries and wages (R&D) if the taxpayer meets the credit eligibility requirements and:

- has entered into a research contract with an eligible university entity, an eligible public research centre or an eligible research consortium; and
- has **not** claimed the tax credit for university research or research carried out by a public research centre or a research consortium.

In addition, a taxpayer can claim the tax credit for salaries and wages (R&D) if the taxpayer meets the credit eligibility requirements and:

- incurred R&D expenditures under a private partnership agreement;
- has **not** filed an application for a qualification certificate with the Minister of Economy and Innovation; and
- has **not** claimed the tax credit for private partnership pre-competitive research.

In general, expenditures such as salaries and wages can give entitlement to only one of the tax credits.

### Amounts giving entitlement to the tax credit

The tax credit for salaries and wages (R&D) must generally be calculated using the following amounts:

- the salaries and wages paid by the taxpayer to the employees of an establishment in Québec for R&D work carried out during the year;
- the portion of the consideration paid by the taxpayer, under a contract for or related to R&D, to a subcontractor not dealing at arm's length with the taxpayer at the time the contract was entered into, for work carried out on the taxpayer's behalf during the year, that corresponds to the salaries and wages paid to the employees of an establishment of the subcontractor in Québec;

- the portion of the consideration paid by the taxpayer, under a contract for or related to R&D, to a subcontractor not dealing at arm's length with the taxpayer at the time the contract was entered into, that the subcontractor then paid, under another contract, to another subcontractor not dealing at arm's length with the first subcontractor at the time the second contract was entered into, for work carried out on the taxpayer's behalf during the year, and that may be attributed to salaries and wages paid to the employees of an establishment of the second subcontractor in Québec;
- half of the portion of the consideration paid by the taxpayer, under a contract for or related to R&D, to a subcontractor dealing at arm's length with the taxpayer at the time the contract was entered into, for work carried out on the taxpayer's behalf during the year by the employees of an establishment of the subcontractor in Québec;
- half of the portion of the consideration paid by the taxpayer, under a contract for or related to R&D, to a subcontractor not dealing at arm's length with the taxpayer at the time the contract was entered into, that the subcontractor then paid, under another contract, to another subcontractor dealing at arm's length with the first subcontractor at the time the second contract was entered into, for work carried out on the taxpayer's behalf during the year by the employees of an establishment of the second subcontractor in Québec.

The term "subcontractor" includes not only persons and partnerships that are directly engaged in R&D on behalf of the taxpayer, but also persons and partnerships that perform work in support of research conducted by the taxpayer.

The following amounts attributable to salaries and wages or the portion of consideration must be subtracted from the amounts giving entitlement to the tax credit:

- government assistance (for example, a grant or forgivable loan) or nongovernment assistance received or receivable; and
- contract payments and certain contributions.

The federal investment tax credit does not need to be subtracted.

## Amount of reducible expenditures

A taxpayer must subtract an amount of reducible expenditures from the salaries, wages and consideration paid for R&D work. The amount of reducible expenditures is equal to the **lesser** of the following amounts:

- the exclusion threshold for the taxation year;
- the total reducible expenditures incurred for the taxation year.

For a taxation year, "reducible expenditures" means all the expenditures incurred during that year that are:

- salaries, wages or consideration, for the tax credit for salaries and wages (R&D);
- qualified expenditures, for the tax credit for university research or research carried out by a public research centre or a research consortium;
- qualified expenditures, for the tax credit for private partnership pre-competitive research; or
- qualified fees, for the tax credit for fees and dues paid to a research consortium.

The basic exclusion threshold for a given taxation year is $50,000. It increases linearly if the taxpayer's total assets for the previous taxation year (not including the assets of any associated corporations) are between $50 million and $75 million. The threshold is $225,000 if the taxpayer's total assets for the previous year are $75 million or more.

If the taxpayer's total reducible expenditures are greater than the exclusion threshold, use the formula below to determine the exclusion threshold amount that must be used to calculate the tax credit for salaries and wages (R&D).

$$\text{Exclusion threshold amount} \times \frac{\text{Reducible expenditures related to salaries and wages (R\&D)}}{\text{Total reducible expenditures}}$$

A taxpayer's reducible expenditures for a taxation year must first be used to reduce the amount of the taxpayer's expenditures that qualify for an increased tax credit rate.

## Calculating the tax credit

The basic tax credit rate is 14%. The rate can reach 30% if the taxpayer is a corporation that is not controlled, directly or indirectly in any manner whatever, by one or more persons not resident in Canada and whose total assets for the previous taxation year (including the assets of associated corporations) are $50 million or less. If the corporation's total assets are between $50 million and $75 million, the 30% rate is reduced linearly. The increased rate applies only to the first $3 million of qualified expenditures.

If, at the end of the calendar year ending in the taxation year, the corporation was associated with one or more other qualified corporations and the associated corporations allocated the $3 million expenditure limit between themselves, the corporation claiming the tax credit must file form RD-1029.7.8, *Entente concernant la limite de dépenses entre sociétés associées*, and enclose it with the corporation income tax return.

The assets used to determine the tax credit rates are those specified in the financial statements of the corporation for the taxation year preceding the year for which the credit is being claimed and must include, if applicable, the assets of any associated corporations for the preceding taxation year. If the corporation is in its first taxation year, the assets used to determine the tax credit are those from the beginning of the year.

Individuals and members of a partnership cannot use the increased tax credit rate applicable to the first $3 million of qualified expenditures.

## Claiming the tax credit

To claim the tax credit, the taxpayer must file form RD-222-V, *Deduction Respecting Scientific Research and Experimental Development Expenditures*, and form RD-1029.7-V, *Tax Credit for Salaries and Wages (R&D)*.

If the taxpayer is a **member of a partnership** (or a member of an interposed partnership that is a member of a partnership), it can claim the tax credit in respect of its share of the salaries and wages paid by the partnership, in which case the corresponding part of form RD-1029.7-V must be completed. If the taxpayer received an RL-15 slip for the year, it must use the amounts in boxes 70, 71 and 74 of the slip to calculate the amount of the credit to which it is entitled.

# Tax credit for university research or research carried out by a public research centre or a research consortium

Under certain conditions, a taxpayer that carries on a business in Canada and entered into either a university research contract with an eligible university entity or an eligible research contract with an eligible public research centre or an eligible research consortium can claim a tax credit in respect of all or part of the qualified R&D expenditures it incurred during the year under the aforementioned contract.

"Eligible university entity" means a Québec university, a prescribed university hospital medical research centre or any other prescribed organization.

"Eligible public research centre" means a prescribed government research centre, a prescribed college centre for the transfer of technology or any other prescribed organization.

"Eligible research consortium" means an organization of Québec businesses operating in a given field that carries out R&D on behalf of its members. To be recognized as an eligible research consortium, the organization must have obtained a certificate from the Minister of Economy and Innovation. For more information concerning the certificate, visit the Ministère de l'Économie et de l'Innovation website at **economie.gouv.qc.ca**.

## Qualified expenditures

The tax credit must be calculated on the basis of the qualified R&D expenditures incurred under a university research contract or a research contract entered into with a public research centre or a research consortium.

If the research is conducted by a university entity, a public research centre or a research consortium with which the taxpayer is **dealing at arm's length**, only 80% of the amount of the research contract constitutes a qualified R&D expenditure for purposes of the tax credit in the taxation year.

Neither R&D expenditures nor salaries and wages paid by a university entity, public research centre or research consortium constitute contributions for work done by the university entity, public research centre or research consortium.

The following amounts attributable to qualified R&D expenditures must be subtracted from the amounts giving entitlement to the tax credit:

- government assistance (for example, a grant or forgivable loan) or nongovernment assistance received or receivable; and
- contract payments and certain contributions.

The federal investment tax credit does not need to be subtracted.

## Amount of reducible expenditures

For a taxation year that began before March 11, 2020, a taxpayer must subtract an amount referred to as "amount of reducible expenditures" from its qualified expenditures. However, a taxpayer that incurred its qualified expenditures in a taxation year beginning after March 10, 2020, for R&D work carried out after that date is no longer required to subtract the amount of reducible expenditures from the consideration paid for this R&D work.

The amount of reducible expenditures is equal to the **lesser** of the following amounts:

- the exclusion threshold for the taxation year;
- the total reducible expenditures incurred for the taxation year.

"Reducible expenditures" is defined under "Tax credit for salaries and wages (R&D)."

The basic exclusion threshold for a given taxation year is $50,000. It increases linearly if the taxpayer's total assets for the previous taxation year (not including the assets of any associated corporations) are between $50 million and $75 million. The threshold is $225,000 if the taxpayer's total assets for the previous year are $75 million or more.

If the taxpayer's total reducible expenditures are greater than the exclusion threshold, use the formula below to determine the exclusion threshold amount that must be used to calculate the tax credit for university research or research carried out by a public research centre or a research consortium.

$$\text{Exclusion threshold amount} \times \frac{\text{Reducible expenditures related to university research or research carried out by a public research centre or a research consortium}}{\text{Total reducible expenditures}}$$

A taxpayer's reducible expenditures for a taxation year must first be used to reduce the amount of the taxpayer's expenditures that qualify for an increased tax credit rate.

## Calculating the tax credit

The basic tax credit rate is 14%. The rate can reach 30% if the taxpayer is a corporation that is not controlled, directly or indirectly in any manner whatever, by one or more persons not resident in Canada and whose total assets for the previous taxation year (including the assets of associated corporations) are $50 million or less. If the corporation's total assets are between $50 million and $75 million, the 30% rate is reduced linearly. The increased rate applies only to the first $3 million of qualified expenditures.

If, at the end of the calendar year ending in the taxation year, the corporation was associated with one or more other qualified corporations and the associated corporations allocated the $3 million expenditure limit between themselves, the corporation claiming the tax credit must file form RD-1029.7.8, *Entente concernant la limite de dépenses entre sociétés associées*, and enclose it with the corporation income tax return.

The assets used to determine the tax credit rates are those specified in the financial statements of the corporation for the taxation year preceding the year for which the credit is being claimed and must include, if applicable, the assets of any associated corporations for the preceding taxation year. If the corporation is in its first taxation year, the assets used to determine the tax credit are those from the beginning of the year.

Individuals and members of a partnership cannot use the increased tax credit rate applicable to the first $3 million of qualified expenditures.

## Claiming the tax credit

To claim the tax credit, the taxpayer must complete form RD-222-V, *Deduction Respecting Scientific Research and Experimental Development Expenditures*, and form RD-1029.8.6-V, *Tax Credit for University Research or Research Carried Out by a Public Research Centre or a Research Consortium*, and enclose them, along with the advance ruling, if applicable, with its income tax return.

If the taxpayer is a **member of a partnership** (or a member of an interposed partnership that is a member of a partnership), it can claim the tax credit in respect of its share of the salaries and wages paid by the partnership, in which case the corresponding part of form RD-1029.8.6-V must be completed.

## Tax credit for private partnership pre-competitive research

A taxpayer that holds a qualification certificate issued by the Minister of Economy and Innovation and that, during the taxation year, carries on a business in Canada and concludes a private partnership agreement to carry out work in Québec, or to have R&D work carried out on its behalf in Québec, can, under certain conditions, claim a tax credit for the qualified R&D expenditures it incurred during the taxation year.

The tax credit is granted to each private partner according to the R&D expenditures the partner incurred in Québec in the taxation year concerned to carry out pre-competitive research or to have pre-competitive research carried out.

"Private partnership" means a partnership with at least two members that are not public partners, that are not related to a public partner and that are dealing at arm's length with the other members of the partnership that are not public partners.

"Public partner" means:

- an eligible university entity, an eligible public research centre, an eligible research consortium or a public body;
- a trust, where one of the beneficiaries of the trust's capital or income is a person referred to in the previous point;

- a corporation that, during the 24 months preceding the partnership agreement (or at any point determined by the Minister following the 24-month period), is controlled directly or indirectly by a person referred to in either of the first two points above, by a combination of such persons or by a partnership referred to in the next point; or
- a partnership where, during the 24 months preceding the partnership agreement (or at any point determined by the Minister following the 24-month period), 50% of the shares were held directly or indirectly by a person referred to in one of the above points.

"Public body" means a government, municipality or other administration; an organization where the majority of members, employees or funds come from the Québec or federal public sector; an entity that Revenu Québec has designated as a public body; or any combination of such entities.

The taxpayer's partners do not have to meet the same requirements as the taxpayer.

## Qualified expenditures

The tax credit must be calculated on the basis of the qualified R&D expenditures that were incurred to carry out a private partnership pre-competitive research project and were calculated using either the traditional or the proxy method, as chosen by the taxpayer in form RD-222-V, *Deduction Respecting Scientific Research and Experimental Development Expenditures*.

If the taxpayer chose to use the proxy method, a proxy amount can be included in the calculation of the taxpayer's qualified expenditures. The proxy amount, however, is not part of the taxpayer's qualified R&D expenditures; it is used only to calculate the amount of the R&D tax credits. It is equal to 55% of the salaries and wages paid to employees taking part directly in R&D.

If the R&D work was subcontracted to a person or a partnership **dealing at arm's length** with the taxpayer, only 80% of the amount of the research contract constitutes a qualified R&D expenditure for purposes of the tax credit.

The following amounts attributable to qualified R&D expenditures must be subtracted from the amounts giving entitlement to the tax credit:

- government assistance (for example, a grant or forgivable loan) or nongovernment assistance received or receivable; and
- contract payments and certain contributions.

The federal investment tax credit does not need to be subtracted.

## Amount of reducible expenditures

For a taxation year that began before March 11, 2020, a taxpayer must subtract an amount referred to as "amount of reducible expenditures" from the qualified expenditures it incurred for R&D work. However, a corporation that incurred its qualified expenditures in a taxation year beginning after March 10, 2020, for R&D work carried out after that date is no longer required to subtract the amount of reducible expenditures from the qualified expenditures paid for this R&D work.

The amount of reducible expenditures is equal to the **lesser** of the following amounts:

- the exclusion threshold for the taxation year;
- the total reducible expenditures incurred for the taxation year.

"Reducible expenditures" is defined under "Tax credit for salaries and wages (R&D)."

The basic exclusion threshold for a given taxation year is $50,000. It increases linearly if the taxpayer's total assets for the previous taxation year (not including the assets of any associated corporations) are between $50 million and $75 million. The threshold is $225,000 if the taxpayer's total assets for the previous year are $75 million or more.

If the taxpayer's total reducible expenditures are greater than the exclusion threshold, use the formula below to determine the exclusion threshold amount that must be used to calculate the tax credit for private partnership pre-competitive research.

$$\text{Exclusion threshold amount} \times \frac{\text{Reducible expenditures related to private partnership pre-competitive research}}{\text{Total reducible expenditures}}$$

A taxpayer's reducible expenditures for a taxation year must first be used to reduce the amount of the taxpayer's expenditures that qualify for an increased tax credit rate.

## Calculating the tax credit

The basic tax credit rate is 14%. The rate can reach 30% if the taxpayer is a Canadian-controlled corporation whose total assets for the previous taxation year (including the assets of associated corporations) are $50 million or less. If the corporation's total assets are between $50 million and $75 million, the 30% rate is reduced linearly. The increased rate applies only to the first $3 million of qualified expenditures, even if the taxpayer is claiming the tax credit in respect of more than one partnership agreement.

If, at the end of the calendar year ending in the taxation year, the corporation was associated with one or more other qualified corporations and the associated corporations allocated the $3 million expenditure limit between themselves, the corporation claiming the tax credit must file form RD-1029.7.8, *Entente concernant la limite de dépenses entre sociétés associées*, and enclose it with the corporation income tax return.

The assets used to determine the tax credit rates are those specified in the financial statements of the corporation for the taxation year preceding the year for which the credit is being claimed and must include, if applicable, the assets of any associated corporations for the preceding taxation year. If the corporation is in its first taxation year, the assets used to determine the tax credit are those from the beginning of the year.

Individuals and members of a partnership cannot use the increased tax credit rate applicable to the first $3 million of qualified expenditures.

## Claiming the tax credit

To claim the tax credit, the taxpayer must file forms RD-222-V, *Deduction Respecting Scientific Research and Experimental Development Expenditures*, and RD-1029.8.16.1-V, *Tax Credit for Private Partnership Pre-Competitive Research*, and enclose a copy of the qualification certificate issued by the Minister of Economy and Innovation.

If the taxpayer is a **member of a partnership** (or a member of an interposed partnership that is a member of a partnership), it can claim the tax credit in respect of its share of the expenditures incurred by the partnership, in which case the corresponding part of form RD-1029.8.16.1-V must be completed.

## Tax credit for fees and dues paid to a research consortium

A taxpayer that operates a business in Canada and that paid eligible fees or dues to a qualified research consortium of which it is a member so that R&D activities related to its field could be carried out can claim a tax credit for the fees or dues.

"Eligible research consortium" is defined under "Tax credit for university research or research carried out by a public research centre or a research consortium."

### Qualified expenditures

In general, a taxpayer can determine the amount giving entitlement to a tax credit for a taxation year by **multiplying** the taxpayer's percentage interest in the research consortium for the consortium's fiscal period that ends in that taxation year **by the lesser** of the following amounts:

- the amount of R&D expenditures related to a business of the taxpayer and made in Québec by the research consortium in its fiscal period that ends in the taxation year of the taxpayer, other than expenditures attributable to fees or dues paid to the research consortium in a previous taxation year; or
- the amount of fees or dues paid to the research consortium by all of its members in its fiscal period that ends in the taxation year of the taxpayer, other than fees or dues used for expenditures that are not related to R&D activities for a business of the taxpayer or were not made in Québec.

If the amount of the fees or dues paid to the research consortium by all of its members is **greater** than the amount of the R&D expenditures made by the consortium, the excess fees or dues will be included in the taxpayer's eligible fee balance and can be carried over to future taxation years.

The taxpayer can claim the credit for an eligible fee balance for a future taxation year if the following conditions are met:

- For the fiscal period ending in a future taxation year of the taxpayer, the research consortium made R&D expenditures in Québec that are related to a business of the taxpayer and that can reasonably be considered to be attributable to fees or dues paid by the taxpayer in a previous year.
- The taxpayer is a member of the consortium at the end of the fiscal period.

The following amounts attributable to fees and dues paid in the taxation year or in a previous taxation year must be subtracted from the amounts giving entitlement to the tax credit:

- government assistance (for example, a grant or forgivable loan) or nongovernment assistance received or receivable; and
- contract payments and certain contributions.

The federal investment tax credit does not need to be subtracted.

### Amount of reducible expenditures

For a taxation year that began before March 11, 2020, a taxpayer must subtract an amount referred to as "amount of reducible expenditures" from the eligible fees or dues paid for R&D expenditures incurred by the consortium for R&D work. However, a corporation that incurred its qualified expenditures in a taxation year beginning after March 10, 2020, for R&D work carried out after that date is no longer required to subtract the amount of reducible expenditures from the eligible fees or dues paid for R&D expenditures incurred by the consortium for this R&D work.

The amount of reducible expenditures is equal to the **lesser** of the following amounts:

- the exclusion threshold for the taxation year;
- the total reducible expenditures incurred for the taxation year.

"Reducible expenditures" is defined under "Tax credit for salaries and wages (R&D)."

The basic exclusion threshold for a given taxation year is $50,000. It increases linearly if the taxpayer's total assets for the previous taxation year (not including the assets of any associated corporations) are between $50 million and $75 million. The threshold is $225,000 if the taxpayer's total assets for the previous year are $75 million or more.

If the taxpayer's total reducible expenditures are greater than the exclusion threshold, use the formula below to determine the exclusion threshold amount that must be used to calculate the tax credit for fees and dues paid to a research consortium.

$$\text{Exclusion threshold amount} \times \frac{\text{Reducible expenditures related to fees and dues paid to a research consortium}}{\text{Total reducible expenditures}}$$

A taxpayer's reducible expenditures for a taxation year must first be used to reduce the amount of the taxpayer's expenditures that qualify for an increased tax credit rate.

## Calculating the tax credit

The basic tax credit rate is 14%. The rate can reach 30% if the taxpayer is a corporation that is not controlled, directly or indirectly in any manner whatever, by one or more persons not resident in Canada and whose total assets for the previous taxation year (including the assets of associated corporations) are $50 million or less. If the corporation's total assets are between $50 million and $75 million, the 30% rate is reduced linearly. The increased rate applies only to the first $3 million of qualified expenditures, even if the corporation is claiming the tax credit in respect of fees and dues paid to more than one research consortium.

If, at the end of the calendar year ending in the taxation year, the corporation was associated with one or more other qualified corporations and the associated corporations allocated the $3 million expenditure limit between themselves, the corporation claiming the tax credit must file form RD-1029.7.8, *Entente concernant la limite de dépenses entre sociétés associées*, and enclose it with the corporation income tax return.

The assets used to determine the tax credit rates are those specified in the financial statements of the corporation for the taxation year preceding the year for which the credit is being claimed and must include, if applicable, the assets of any associated corporations for the preceding taxation year. If the corporation is in its first taxation year, the assets used to determine the tax credit are those from the beginning of the year.

Individuals and members of a partnership cannot use the increased tax credit rate applicable to the first $3 million of qualified expenditures.

## Claiming the tax credit

To claim the tax credit, the taxpayer must file form RD-1029.8.9.03-V, *Tax Credit for Fees and Dues Paid to a Research Consortium*, and enclose a copy of the proof of payment of the fees or dues that was provided by the research consortium.

If the taxpayer is a **member of a partnership** (or a member of an interposed partnership that is a member of a partnership), it can claim the tax credit in respect of its share of the expenditures incurred by the partnership, in which case the corresponding part of form RD-1029.8.9.03-V must be completed.

# TAX HOLIDAY FOR FOREIGN EMPLOYEES

## Information on the tax holiday

### Duration

An individual (hereinafter an “employee”) who is a foreign researcher, a foreign expert, a foreign professor or a foreign researcher on a post-doctoral internship, who is not resident in Canada and who comes to Québec to work may claim a total or partial tax holiday on his or her salary or wages for a continuous period that covers five calendar years. An employee is entitled to only one five-year tax exemption period even if he or she holds more than one type of employment giving entitlement to the exemption.

### Exemption rate for foreign employees

The exemption rate is:

- 100% if the employee is in the first or second year of the tax holiday;
- 75% if the employee is in the third year of the tax holiday;
- 50% if the employee is in the fourth year of the tax holiday;
- 25% if the employee is in the fifth year of the tax holiday.

Income from any other source must be included in the employee’s income.

## Foreign researchers

A foreign researcher is an individual who:

- at a particular time, took up employment duties as an employee of an eligible employer under a contract entered into with that employer;
- was not resident in Canada immediately before the date on which he or she entered into the employment contract or immediately before the particular time;
- from the particular time to the end of the year (or part of the year) concerned, met the following conditions:
  - the individual worked exclusively or almost exclusively for the eligible employer,
  - the individual performed duties in Québec for the eligible employer that consisted in carrying out R&D activities (see “Eligible R&D work” on page 6) and that were not performed for an eligible university entity or an eligible public research centre, within the meaning of the *Taxation Act.*

Under certain circumstances, an individual can continue to claim a tax holiday even if he or she changes jobs.

To be eligible, the employer must:

- be a person or a partnership that carries on a business in Canada;
- not be an eligible university entity within the meaning of the *Taxation Act*;
- not be exempt from income tax;
- carry out R&D, or have R&D carried out on its behalf, in Québec;
- have obtained, from the Minister of Economy and Innovation, a foreign researcher qualification certificate certifying that the individual:
  - is specialized in the field of pure or applied science or a related field,
  - holds a master's degree recognized by a Québec university in pure or applied science or a related field (or possesses equivalent knowledge), and
  - has the skills required to carry out R&D activities.

The employer must file an application for the qualification certificate before March 1 of the calendar year that follows the taxation year for which the individual first claimed the tax holiday.

For more information, or to obtain a certificate, visit the Ministère de l'Économie et de l'Innovation website at economie.gouv.qc.ca.

## Foreign experts

A foreign expert is an individual who:

- at a particular time after March 9, 1999, took up employment duties as an employee of an eligible employer under a contract entered into with the employer after that particular time;
- was not resident in Canada immediately before the date on which he or she entered into the employment contract or immediately before the particular time;
- from the particular time to the end of the year (or part of the year) concerned, met the following conditions:
  - the individual worked exclusively or almost exclusively for the eligible employer,
  - the individual performed duties in Québec for the eligible employer as part of an R&D project (see "Eligible R&D work" on page 6), regardless of whether the duties were performed before or after the project was carried out, or while it was being carried out.

Under certain circumstances, an individual can continue to claim a tax holiday even if he or she changes jobs.

To be eligible, the employer must:

- be a person or a partnership that carries on a business in Canada;
- be neither an eligible university entity nor a government or Crown corporation, tax-exempt or not;
- carry out R&D, or have R&D carried out on its behalf, in Québec, particularly in the field of valorization of R&D results;
- have obtained, from the Minister of Economy and Innovation, an expert qualification certificate certifying that:
  - the individual is specialized in the field of valorization of R&D results,
  - the individual holds a degree recognized by a Québec university in that field (or possesses equivalent knowledge),
  - the individual possesses the skills required to carry out activities related to the valorization of the employer's R&D results, and
  - the individual's duties with the employer from the particular time to the end of the year concerned (or to the end of part of the year) are performed exclusively or almost exclusively as an expert in the field in question.

The employer must file an application for the qualification certificate before March 1 of the calendar year that follows the taxation year to which it applies.

For more information, or to obtain a certificate, visit the Ministère de l'Économie et de l'Innovation website at economie.gouv.qc.ca.

## Foreign professors

A foreign professor is an individual who:

- at a particular time after June 29, 2000, took up employment duties as an employee of an eligible employer under a contract entered into with the employer after that particular time;
- was not resident in Canada immediately before the date on which he or she entered into the employment contract or immediately before the particular time;
- from the particular time to the end of the year (or part of the year) concerned, met the following conditions:
  - the individual worked exclusively or almost exclusively for the eligible employer,
  - the individual performed duties for the eligible employer exclusively or almost exclusively as a professor in the field of science and engineering, finance, health or new information and communication technologies.

Under certain circumstances, an individual can continue to claim a tax holiday even if he or she changes jobs.

To be eligible, the employer must:

- be a Québec university;
- have obtained, from the Minister of Higher Education, an annual professor certificate certifying that:
  - the individual is specialized in the field of science and engineering, finance, health or new information and communication technologies,
  - the individual holds a doctoral degree in one of those fields or an equivalent degree, and
  - the individual's duties with the employer from the particular time to the end of the year concerned (or to the end of part of the year) are performed exclusively or almost exclusively as a professor in one of those fields.

The employer must file the application for the certificate before March 1 of the calendar year that follows the taxation year to which it applies.

For more information, or to obtain a certificate, visit the Ministère de l'Enseignement supérieur website at education.gouv.qc.ca.

## Foreign researchers on a post-doctoral internship

A foreign researcher on a post-doctoral internship is an individual who:

- at a particular time after March 31, 1998, took up employment duties as an employee of an eligible employer under a contract entered into with the employer after that particular time;
- was not resident in Canada immediately before the date on which he or she entered into the employment contract or immediately before the particular time;
- from the particular time to the end of the year (or part of the year) concerned, met the following conditions:
  - the individual worked exclusively or almost exclusively for the eligible employer,
  - the individual performed duties for the eligible employer exclusively or almost exclusively as a researcher on a post-doctoral internship and carried out R&D activities.

Under certain circumstances, an individual can continue to claim a tax holiday even if he or she changes jobs.

To be eligible, the employer must:

- be an eligible public research centre or an eligible university entity within the meaning of the *Taxation Act*;
- have obtained, from the Minister of Higher Education, an annual researcher certificate certifying that:
  - the individual is specialized in the field of pure or applied science or a related field,
  - the individual holds a doctoral degree in one of those fields or an equivalent degree,
  - the individual is on a full-time post-doctoral internship of specified duration with the employer as a researcher, and
  - the individual's duties with the employer from the particular time to the end of the year concerned (or to the end of part of the year) are performed exclusively or almost exclusively as a researcher on a post-doctoral internship.

The employer must file the application for the certificate before March 1 of the calendar year that follows the taxation year to which it applies.

For more information, or to obtain a certificate, visit the Ministère de l'Enseignement supérieur website at education.gouv.qc.ca.

# FILING AN APPLICATION

## Forms and information to submit

A taxpayer that wishes to deduct qualified expenditures or claim R&D tax credits must enclose with the income tax return a copy of form RD-222-V, *Deduction Respecting Scientific Research and Experimental Development Expenditures*, along with the following form(s), as applicable:

- RD-1029.7-V, *Tax Credit for Salaries and Wages (R&D)*;
- RD-1029.8.6-V, *Tax Credit for University Research or Research Carried Out by a Public Research Centre or a Research Consortium*;
- RD-1029.8.9.03-V, *Tax Credit for Fees and Dues Paid to a Research Consortium*;
- RD-1029.8.16.1-V, *Tax Credit for Private Partnership Pre-Competitive Research*;
- RD-1029.7.8, *Entente concernant la limite de dépenses entre sociétés associées*.

The forms are available on our website at revenuquebec.ca.

A taxpayer that is claiming the tax credit for private partnership pre-competitive research must also send us a copy of the qualification certificate issued by the Minister of Economy and Innovation for the pre-competitive research project carried out under the partnership agreement.

In all cases, the taxpayer must be able to provide us with information about the following:

- the R&D projects for which the taxpayer is claiming a tax credit. Such information can be provided on federal form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim*;
- the salaries and wages for R&D activity;
- other R&D expenditures (for example, those relating to subcontractors).

An application is considered to be complete only if it contains all of the duly completed prescribed forms and all other requested information.

## Filing deadline

Corporations must generally file their income tax return, along with the related schedules and forms, within six months following the end of their taxation year.

If a corporation is claiming the tax credit for private partnership pre-competitive research, it must send us its income tax return, the related schedules and forms, and a copy of the valid qualification certificate issued for the pre-competitive research project carried out under the partnership agreement, by the latest of the following dates:

- the date that is 12 months after the income tax return filing deadline for the taxation year concerned;
- the date that is three months after the issue date of the qualification certificate needed to claim the tax credit for that taxation year.[4]

4. Even if a copy of the qualification certificate needed to claim the tax credit is sent to us after the 12-month or three-month time limit, we will accept the tax credit application if all copies of the prescribed form are sent to us within the applicable time limit and the certificate was duly obtained from the Minister of Economy and Innovation. However, we will only process your application when we receive a copy of the certificate. Contact us for more information.

Individuals in business must file their income tax return and related documents by June 15 of the calendar year following the year for which they are filing the return.

All forms related to R&D must be filed within 12 months after the filing deadline for the personal income tax return.

## Confidentiality of information

The tax record of a taxpayer consists of the information held by Revenu Québec in respect of the taxpayer, in whatever form, for the application of a tax law. This information is confidential and cannot be used or communicated unless the taxpayer consents thereto or unless the use or communication is authorized by law.

# TO CONTACT US

**ONLINE**

revenuquebec.ca

**BY TELEPHONE**

### Individuals and individuals in business

Monday to Friday: 8:30 a.m. to 4:30 p.m.

| Québec City | Montréal | Elsewhere |
|---|---|---|
| 418 659-6299 | 514 864-6299 | 1 800 267-6299 (toll-free) |

### Businesses, employers and agents for consumption taxes

Monday, Tuesday, Thursday and Friday: 8:30 a.m. to 4:30 p.m.
Wednesday: 10:00 a.m. to 4:30 p.m.

| Québec City | Montréal | Elsewhere |
|---|---|---|
| 418 659-4692 | 514 873-4692 | 1 800 567-4692 (toll-free) |

### Complaints – Bureau de la protection des droits de la clientèle

Monday to Friday: 8:30 a.m. to noon and 1:00 p.m. to 4:30 p.m.

| Québec City | Elsewhere |
|---|---|
| 418 652-6159 | 1 800 827-6159 (toll-free) |

### Individuals with a hearing impairment

| Montréal | Elsewhere |
|---|---|
| 514 873-4455 | 1 800 361-3795 (toll-free) |

**BY MAIL**

### Individuals and individuals in business

**Montréal, Laval, Laurentides, Lanaudière and Montérégie**

Direction principale des relations
avec la clientèle des particuliers

Revenu Québec
C. P. 3000, succursale Place-Desjardins
Montréal (Québec) H5B 1A4

**Québec City and other regions**

Direction principale des relations
avec la clientèle des particuliers

Revenu Québec
3800, rue de Marly
Québec (Québec) G1X 4A5

### Businesses, employers and agents for consumption taxes

**Montréal, Laval, Laurentides, Lanaudière, Montérégie, Estrie and Outaouais**

Direction principale des relations
avec la clientèle des entreprises

Revenu Québec
C. P. 3000, succursale Place-Desjardins
Montréal (Québec) H5B 1A4

**Québec City and other regions**

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3800, rue de Marly
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Cette publication est également disponible en français et s'intitule *L'aide fiscale pour la recherche scientifique et le développement expérimental* (IN-109).

2021-05

IN-109-V (2021-08)