Subject: Measures to foster the multimedia and information technology industries in Québec

IMPROVED TAX CREDIT FOR THE PRODUCTION OF MULTIMEDIA TITLES

The refundable tax credit for the production of multimedia titles was introduced in the May 9, 1996 Budget Speech. Part of it is based on wage expenditures incurred in the production of an eligible multimedia title and the other part on the operating revenue generated by the title. In addition, a French-language premium may be granted.

On April 17, 1997, the government announced that it intended to raise maximum assistance to 35% of production expenses of an eligible title and to alter certain eligibility criteria.

This information bulletin details these changes and describes other improvements to the tax credit for the production of multimedia titles to simplify it, broaden the base and increase the amount of assistance provided.

Eligible taxpayers

Currently, any Québec-controlled corporation which is not tax-exempt is eligible for the tax credit, regardless of its main activity.
Henceforth, to be entitled to this refundable tax credit, a taxpayer will have to satisfy the following requirements:

- be a non-tax-exempt corporation;
- have a place of business in Québec;
- carry on a multimedia title production business in Québec;
- produce a multimedia title for which the Société de développement des entreprises culturelles (SODEC) issues an eligibility certificate.

Accordingly, the corporation need no longer be Québec-controlled.

**Eligible multimedia titles**

There are currently restrictions on the eligibility of certain corporate or institutional titles. Only titles designed for specific purposes (education, promotion of tourism in Québec, etc.) can be eligible. These restrictions are eliminated. Accordingly, subject to the general exclusions mentioned below, all titles produced to order will now be eligible for tax assistance, regardless of their purpose.

In addition, there will be only two categories of eligible multimedia titles:

<table>
<thead>
<tr>
<th>Category</th>
<th>Titles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 1</td>
<td>Multimedia titles not made to order, intended for commercialization and available in French</td>
</tr>
<tr>
<td>Category 2</td>
<td>Other multimedia titles</td>
</tr>
</tbody>
</table>
Nonetheless, the following titles, regardless of which category they belong to, will not be eligible:

- multimedia titles which are essentially interpersonal communications services, such as video-conferencing, electronic bulletin boards and chat rooms, or transaction services such as on-line shopping, virtual shopping malls, electronic ticket agencies and on-line payment systems;
- multimedia titles designed to present a corporation operated for profit, describe its activities or promote its products or services;
- multimedia titles that encourage violence, sexism or discrimination.

Lastly, the Québec resource utilization criterion (75%) and the restrictions relating to copyright ownership are eliminated. Accordingly, the emphasis is now placed on work done in Québec to produce eligible multimedia titles.

**Amount of tax credit**

The performance premium aspect of the tax credit required that the revenue generated by the title be closely monitored for three years, which made this tax measure substantially more complex to administer. This performance premium is eliminated but the basic credit is improved.

Accordingly, the amount of tax assistance will henceforth be based on the following parameters:

<table>
<thead>
<tr>
<th>Amount of tax assistance</th>
<th>Basic credit (tied to eligible manpower expenditures)</th>
<th>Plus: premium for French (tied to eligible manpower expenditures)</th>
<th>Maximum tax assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category 1</td>
<td>45%</td>
<td>20%</td>
<td>Up to 35% of eligible production expenses</td>
</tr>
<tr>
<td>Category 2</td>
<td>45%</td>
<td>N/A</td>
<td>Up to 25% of eligible production expenses</td>
</tr>
</tbody>
</table>
Eligible manpower expenditures

Eligible manpower expenditures, for the producer of the eligible title and in relation to such title, consist of the following items:

- wages incurred with persons employed by the producer in an establishment of the latter located in Québec and who work directly on the production of the eligible title, which can reasonably be considered to relate to such title, given the time the employee spends thereon. If an employee spends 90% or more of his time on the production of one or more eligible titles, he will be considered to be spending all of his time thereon;

- in the case where the work is done by a sub-contractor, the following amounts:
  . if the sub-contractor is a person or partnership not at arm’s length with the producer of the title, the portion of the consideration paid under the contract, which can reasonably be attributed to wages paid to the employees of an establishment of the sub-contractor located in Québec, regarding the production of an eligible multimedia title on behalf of a producer during the year;
  . if the sub-contractor and the producer are at arm’s length, half of the consideration paid under the contract, which can be reasonably attributed to the production of an eligible multimedia title on behalf of the producer during the year, by the employees of an establishment of this sub-contractor located in Québec.

For this purpose, the notion of wages will be the same one used for the application of the refundable tax credit on R&D wages.

To be eligible, manpower expenditures must be incurred for stages in the production of the multimedia title ranging from the design stage to the finishing of the final version ready for commercialization. However, they do not include an expenditure regarding which another refundable tax credit is otherwise granted. In addition, they are reduced by the amount of any government or non-government assistance, in accordance with rules similar to those stipulated for the application of the refundable tax credit on R&D wages, except regarding amounts of financial assistance provided by the Information Highway Fund, SODEC or by the Conseil des arts et des lettres du Québec.
Eligible production expenses

Eligible production expenses of a corporation for a taxation year, regarding an eligible multimedia title, consist of the following items:

- the portion of such expenses, other than management fees or administration expenses, provided they are reasonable in the circumstances and are included in the cost of production, the cost or capital cost, as the case may be, of this multimedia title for the corporation, which were incurred during the year to carry out in Québec the stages in the production of the multimedia title ranging from the design stage to the finishing of a final version, ready for commercialization;

- an amount relating to production fees and administration expenses associated with the multimedia title, not exceeding 20% of the portion of the corporation’s manpower expenditure, not included in such amount, for the year regarding the multimedia title.

Eligible production expenses must also be reduced by the amount of any government or non-government assistance in the same way as stipulated for eligible manpower expenditures.

Effective date

The changes to the application details of the tax credit will apply to titles for which the main production work will begin after the date of publication of this information bulletin.

The requirement that a taxpayer be controlled by Quebecers to be eligible for the tax credit is eliminated effective April 18, 1997.

Lastly, a producer which began the main production work for a title after May 9, 1996 but no later than the date of publication of this information bulletin will be allowed to elect, using a prescribed form, the tax system applicable to productions for which the main production work begins after such day.
In the absence of such an election, the multimedia title will entitle the taxpayer to the
tax credit in accordance with the terms and conditions announced in the May 9, 1996
Budget Speech, except that, for the period between April 18, 1997 and the date of
publication of this information bulletin, the basic credit determined in proportion to
wages incurred is raised from 20% to 25% and may not exceed 15% of production
expenses.

Role of SODEC

SODEC remains the point of entry for corporations wishing to obtain tax assistance.
Essentially, it will be responsible for the eligibility of titles, determining the category to
which they belong and issuing certificates in this regard.

INFORMATION TECHNOLOGY DEVELOPMENT CENTRE

The March 25, 1997 Budget Speech introduced the concept of the Information
Technology Development Centre (ITDC).

The first stage in the implementation of ITDCs is the creation of the Information
Technology Development Centre Office (ITDCO). The Budget Speech stated in this
regard:

“Following consultations to be held with the main partners concerned in
the implementation of ITDCs, the Minister of Finance will, over the next
few months, set up the ITDCO and, at the same time, release the details
on how to obtain the various certifications required.”

Consultations held in recent weeks have identified the stakeholders in the information
technology industry and pinpointed their needs.

Creation of the Information Technology Development Centre Office

The Minister of Finance announced today the creation of the ITDCO and released the
names of the members of its advisory committee. As mentioned in the Budget Speech,
members of the advisory committee have been drawn from the private sector and the
public sector, and reflect the regional dimension.
The ITDCO is an administrative unit under the authority of the assistant deputy minister for fiscal policy. Its chief mandate will be to foster ITDCs and assess the applications for accreditation it receives. The ITDCO will submit the results of its work to the advisory committee, which will make recommendations to the Minister of Finance.

For its analytical work, the ITDCO may make use of the services of outside experts to advise it in certain fields, for instance, on the choice of buildings to prescribe.

For now, applications for ITDC designation, as well as for project accreditation, should be sent to the assistant deputy minister for fiscal policy, 12, rue St-Louis, in Québec City. Once the ITDCO is operational, applications should be sent to it directly.

**Eligibility criteria eased**

The consultations held in recent weeks with industry stakeholders have revealed a need to ease the initial eligibility criteria. They have shown that the constraint created by the business continuity criterion could seriously hamper achievement of the measure’s objectives. In addition, the requirement that the corporation be incorporated after the day of the Budget Speech was deemed too restrictive.

To deal with the needs that have been expressed, the criteria relating to business continuity is replaced with the less restrictive notion of “innovative project”.

The ITDCO advisory committee will accordingly make recommendations on this new basis and in accordance with the other criteria mentioned in the last Budget Speech.

In addition, the criterion requiring incorporation after the day of the Budget Speech is replaced by the requirement that the new corporation not have carried on a business prior to beginning to carry on a business in an ITDC.

These new projects can accordingly be carried out in an ITDC by such a corporation, even if it is a subsidiary of an existing corporation. The movement of existing projects and businesses in Québec to ITDCs would not enable the measure to achieve its objectives.