Subject : Improvement of the simplified tax system and other tax measures

This Information Bulletin bears mainly on the measures that will be implemented to improve the simplified tax system. Its purpose is also to release the application details of the specific duty that will be levied, as of October 1, 1999, on new tires for road vehicles, and other changes that will be made to Québec's tax legislation.

Many of these changes are intended to improve existing tax measures, as the tax holiday for foreign researchers or training instructors or the refundable tax credit for Québec film and television production. Most of the other changes have a more technical character or concern various federal measures that will be incorporated in Québec's tax legislation.

For information on the issues dealt with in this Information Bulletin, those interested can contact the Direction générale de la fiscalité at (418) 691-2236.

French and english versions of this Information Bulletin are available on the Ministère des Finances' Web site (www.finances.gouv.qc.ca).
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APPENDIX 1

APPENDIX 2
1. MEASURES AFFECTING INDIVIDUALS

1.1 Simplified tax system

In the March 25, 1997 Budget Speech, the government announced that in order to simplify the tax system’s application and improve its fairness for most taxpayers who benefit little from tax expenditures, taxpayers will, beginning in taxation year 1998, be able to choose between the general tax system or the new simplified income tax system.

Essentially, the new simplified tax system replaces more than fifty non-refundable tax credits and deductions with a flat amount of $2,350, transferable between spouses who choose the simplified tax system. This flat amount, converted at a rate of 23%, provides a tax reduction of $541 per taxpayer.

1.1.1 Improved system

- Change to the rules applicable to the calculation of income under the simplified tax system

To enable taxpayers to more easily assess the benefits of the simplified tax system, it was announced, on November 14, 1997,¹ that regardless of whether a taxpayer elects the simplified tax system or the general tax system, the income used in calculating refundable and non-refundable tax credits reduced by income would be determined as if the taxpayer had elected the simplified tax system.

For the same purpose, it was announced, on December 18, 1997,² that this rule would also apply to calculate the family allowance and premium payable under the Québec prescription drug insurance plan.

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¹ Ministère des Finances du Québec Information Bulletin 97-6.
In addition, on November 6, 1998, it was announced that the rules of the Parental Wage Assistance Program (PWA) which is designed to provide low-income families with a financial supplement when one parent is employed, would be changed so that, in particular, the notion of total income used to determine the basic amount of the benefit provided under the program would refer, as of taxation year 1998, to the total of the individual’s net income and, if applicable, that of his spouse, calculated according to the rules of the simplified tax system.

According to current legislation, the deductions replaced by the flat amount of $2,350 include various deductions relating either to the reimbursement of amounts included in the calculation of the taxpayer’s income for the year or a previous taxation year, or to the transfer into retirement savings mechanisms of certain benefits received during the year.

Considering that the deductions relating to the amounts reimbursed by a taxpayer during a taxation year reflect the fact that these amounts have already been included in the calculation of his income for the year they were received, and that the deductions relating to the transfer of certain benefits into retirement savings mechanisms enable a deferral of the tax on these benefits, the rules applicable to the calculation of income under the simplified tax system will be amended to recognize that these amounts reimbursed or transferred do not constitute income for the taxpayer.

More specifically, the tax legislation will be changed to stipulate that a taxpayer may, for a given taxation year, elect the simplified tax system without having to forego the deduction, in calculating his income, for such taxation year, of the following amounts:

— the amount of employment insurance and old age security pension benefits or the net federal supplements (guaranteed income supplement or spouse’s allowance) he must repay to the federal government when filing his tax return for the year;

— the amount deductible because of the refund of an amount included in the calculation of his income for the year or for a previous taxation year for, in particular, government benefits (for instance: the old age security pension, the retirement pension received under the Québec Pension Plan or employment insurance benefits), academic bursaries, research grants or support payments;

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— the amount deductible, for the year, regarding benefits received from a registered pension plan (RPP), a registered retirement savings plan (RRSP) or registered retirement income fund (RRIF), as the case may be, which were transferred into an RPP, RRSP or RRIF or which were used to acquire an annuity contract, as the case may be (for instance: transfer to an RRSP of a refund of premiums received following the death of the spouse);

— the amount deductible for the transfer of a retiring allowance to an RRSP or an RPP;

— any other amount deductible under the general tax system provided the amount relates to deferred income plans, such as RPPs and RRSPs.

More specifically, the income used to calculate the refundable and non-refundable tax credits reduced by income, family allowance and the premium payable under the Québec prescription drug insurance plan, as well as the net income used for the purposes of calculating the basic amount of the PWA program benefit, will also be determined by taking these deductions into account.

These changes will apply retroactively to taxation year 1998, i.e. since the effective date of the new simplified tax system.

Benefits of the simplified tax system more accessible to individuals suffering from an impairment

Individuals suffering from a severe and prolonged physical or mental impairment may have to meet substantial expenses related to their impairment in order to be able to work.

To facilitate integration into the labour market, a person suffering such an impairment is allowed a deduction for payments to a person to provide him with care that enables him to hold a job, carry on a business or carry out research or similar work regarding which he received a grant. This deduction may amount to two-thirds of the worker’s eligible income.

However, to claim this deduction a taxpayer must elect the general tax system, since this deduction was replaced, in the simplified tax system, by the flat amount of $2 350.
To further support the efforts of workers suffering from a severe and prolonged physical or mental impairment, the tax legislation will be changed to stipulate that an individual may elect the simplified tax system without foregoing the deduction for the services of an attendant.

In addition, technical changes will be made to the current tax legislation so that the deduction is allowed on the basis of the source of income.

These changes will apply as of taxation year 1998, i.e. since the effective date of the new simplified tax system.

As part of the March 9, 1999 Budget Speech, it was announced that an individual could elect the simplified tax system without having to forego the deduction, in calculating his tax otherwise payable, of the amount of the tax credit for a person suffering from a severe and prolonged physical or mental impairment or the tax credit for a dependent suffering from a severed and prolonged physical or mental impairment.

These changes which, originally, were to apply as of taxation year 1999, will apply as of taxation year 1998, i.e. since the effective date of the new simplified tax system.

Revision of tax returns already filed

During the fall, the ministère du Revenu will automatically process the tax returns of taxpayers who, for taxation year 1998, have filed their tax return under the rules of the general tax system in order to determine whether the changes made to the rules of the simplified tax system benefit them. They will be allowed any benefit and a new notice of assessment will be issued by the ministère du Revenu.

Taxpayers who, for taxation year 1998, filed their tax return under the rules of the simplified tax system, i.e. those taxpayers for whom the impact of the changes is relatively minor, the ministère du Revenu will automatically process their tax return. However, in such cases, so that processing can start this fall, taxpayers concerned by these changes are invited to complete and send the form Request for an Adjustment to Simplified Income Tax Return Filed for 1998 (TP-1.R.S-V).
1.1.2 Option for a taxpayer to elect not to have his tax payable determined according to the rules of the simplified tax system

To ensure that all taxpayers benefit fully from the advantages of the simplified tax system, it was announced, as part of the 1997-1998 Budget Speech, that in the case where a taxpayer elects, for a given taxation year, the general tax system, the ministère du Revenu would also process his tax return according to the rules of the simplified tax system, to determine whether the taxpayer would have benefited, for the year, by electing the simplified system.

Consequently, if, following the application of the rules of the simplified tax system, a taxpayer’s tax payable for a taxation year is less than the amount of his tax payable for the year under the rules of the general tax system, the Minister of Revenue must determine his tax payable, for the year, by applying the rules of the simplified tax system. This also holds if, following the application of the rules of the simplified tax system, the taxpayer’s spouse could benefit, for the year, from the transfer of a portion of the non-refundable tax credits not used by the taxpayer.

In some cases, it is possible that the benefit to a taxpayer of the simplified tax system, for a given taxation year, may be less than the benefits, for the year, that application of the rules of the general tax system could provide for one or more other taxation years. For instance, this situation could occur when, following a payment, for a given taxation year, of an alternative minimum tax, a taxpayer may as a reduction of his tax payable, for one or more subsequent taxation years, obtain a greater benefit than he would under the simplified tax system for the given taxation year.

To prevent, in particular, a taxpayer from losing the benefit of deferring a deduction, in calculating his taxable income or his tax payable for another taxation year, through the application of the rules of the simplified tax system for a given taxation year, the tax legislation will be changed to stipulate that a taxpayer may refuse to have the Minister of Revenue determine his tax payable for a taxation year according to the rules of the simplified tax system by sending him notice to that effect on the prescribed form.

This change will apply to taxation year 1998 and subsequent taxation years.
1.1.3 Automatic determination of the flat amount

Under the simplified tax system, of all the deductions and non-refundable tax credits that have been replaced by the flat amount of $2,350, the tax credit for employee’s contributions to the Québec Pension Plan (QPP) and the tax credit for employee’s contributions to employment insurance represent, for many Québec taxpayers, the only two tax credits they must forego in order to file under the simplified tax system.

To enable the vast majority of Québec taxpayers to enjoy the benefits of the simplified tax system, the flat amount was set, in the 1997-1998 Budget Speech, at $2,350, i.e. an amount that is $250 above an employee’s maximum contributions to the QPP and employment insurance.

In spite of the increase in the QPP employee’s contribution rate for taxation year 1998, the benefits of the simplified tax system remained comparable to what they were when the flat amount was set at $2,350, since this increase was offset by an equivalent reduction in the employment insurance contribution rate.

However, for taxation year 1999, the increase in the QPP employee’s contribution rate was not offset by an equivalent decrease in the employment insurance contribution rate, and nothing indicates that, for subsequent taxation years, such an offset will be possible.

Method of determination

To maintain the benefits of the simplified tax system at a level comparable to what had been set in the 1997-1998 Budget Speech, the existing tax legislation will be amended to stipulate that the flat amount allowed for a given taxation year, following taxation year 1998, will be equal to the total of the following amounts:

— the product obtained by multiplying the maximum contributable earnings determined, for the year, under the Act respecting the Québec Pension Plan by half the QPP contribution rate stipulated, for the year, under such act;

— the product obtained by multiplying the maximum annual insurable earnings set, for the year, under the Employment Insurance Act by the employee contribution rate applicable, for the year, under the said act;

— $250.
However, if the flat amount thus determined is not a multiple of $5, it must be adjusted to the closest multiple of $5 or, if equidistant from two multiples of $5, it must be adjusted up to the nearest multiple of $5.

In addition, the flat amount so determined for a taxation year must not, in any case, be less than the flat amount allowed in the calculation of tax otherwise payable for the preceding taxation year.

According to this method of determination, the flat amount that will be allowed in calculating the tax otherwise payable for taxation year 1999 will be equal to $2,430.

### Withholdings at source

The withholdings at source that have applied since January 1, 1998 fully reflect the flat amount of $2,350, which amount is added to the basic personal amount of $5,900.

Since the parameters necessary for the determination, for a given taxation year, of the maximum amount of the employment insurance contribution can change in the last weeks prior to the start of such year, and since these parameters must be known to determine the flat amount applicable for the said year, the withholdings at source that will apply, for a taxation year following taxation year 1998, will be determined by taking into account the flat amount applicable for the preceding taxation year.

### 1.2 Technical clarifications

#### 1.2.1 Fees paid for pre-school education

Under existing tax legislation, fees paid for childcare for an eligible child may, subject to certain conditions, give rise to a refundable tax credit.

For the purposes of this tax credit, it is specifically provided that childcare expenses do not include education expenses, among others.
Since the expression “education expenses” is not defined in the tax legislation, it could be interpreted as including both expenses paid to obtain general or specific teaching services and expenses paid to obtain pre-school education services, which are intended mainly to develop a child’s skills in disciplines that will enable him to continue at the primary level.

To remove any ambiguity regarding the eligibility as childcare expenses of expenses paid for pre-school education services, a technical change will be made to Québec's tax legislation to specify that childcare expenses do not include expenses paid for general or specific teaching services and not all expenses paid for education services.

This technical change will apply as of taxation year 1999.

1.2.2 Tax treatment of indemnities for travel expenses granted to members of the Kativik Regional Government

It was announced, on July 3, 1997,\(^4\) that Québec's tax legislation would be amended to extend municipal status, to the Kativik Regional Government, established by the Act respecting Northern villages and the Kativik Regional Government, for the purposes of the Taxation Act, considering that, in fact, this entity is similar to a regional county municipality.

Under existing tax legislation, an individual who is a member of the council of a regional county municipality is not required to include, in calculating his income for a taxation year, an amount he receives during the year from such municipality as a travel expense allowance or as reimbursement of such expenses, other than those he incurs in the course of carrying out his duties, provided such amount does not exceed a reasonable amount.

To assist members of the council of the Kativik Regional Government in carrying out their mandate and provide fairer tax treatment for their remuneration, the tax legislation will be amended so that the indemnities for travel expenses they are granted receive the same tax treatment as that applied to the indemnities for travel expenses of members of the council of a regional county municipality.

\(^4\) Ministère des Finances Information Bulletin 97-4.
This change will apply to taxation year 1997 and subsequent taxation years.

1.2.3 Tax treatment applicable to amounts paid to a worker during the first five days of absence due to preventative withdrawal from work

Section 36 of the Act respecting occupational health and safety (“AOHS”) stipulates that a worker who must stop work, in particular following a preventative withdrawal from work, is entitled, for the first five working days of cessation of work, to be remunerated at his regular wage rate and to receive from his employer, if the worker is employed in the restaurant industry, a remuneration equal to all the tips that could reasonably be considered attributable to those days.

This section also stipulates that at the end of this period, the worker is entitled to the income replacement indemnity to which he would be entitled under the Act respecting industrial accidents and occupational diseases as though he then became unable to carry on his job by reason of an employment injury.

Under existing tax legislation, the individual covered by section 36 of the AOHS must include, in calculating his income, all the amounts paid to him in accordance with this section. However, no tax is due regarding these amounts, since the individual can claim an equivalent deduction in calculating his taxable income, even though he received, for the first five working days of cessation of work, his full remuneration.

So that the tax treatment applicable to amounts paid in accordance with section 36 of the AOHS is identical to that applied to amounts paid for the loss of employment income, the tax legislation will be changed to stipulate that only the amount paid as of the sixth working day of cessation of work may give rise to a deduction in calculating taxable income.

This change will apply as of taxation year 1999.
1.2.4 Over-payments of a spouse allowance or of a supplement received under the Old Age Security Act

Under existing tax legislation, an individual is required to include in calculating his income, for a given taxation year, the amount of the spouse allowance or supplement he received, during the year, under the Old Age Security Act. However, no tax is due on such amount, since a corresponding deduction is granted in calculating taxable income.

However, when an individual repays, during a subsequent taxation year, an amount he received under any of these benefits, other than further to the application of the federal tax on old age security benefits, the amount thus repaid cannot be deducted in calculating his income for such year.

Considering that the amount of the spouse allowance or the supplement has been included in the income used to calculate the various refundable and non-refundable tax credits that are reduced by income, for the taxation year during which such amount was received, a taxpayer should be allowed to deduct the amount that has been repaid.

The tax legislation will accordingly be amended to stipulate that an individual may deduct in calculating his income, for a given taxation year, the amount of the spouse allowance or supplement he has repaid during the year, other than further to the application of the federal tax on old age security benefits, provided such amount was included in the calculation of his income for a previous taxation year.

However, considering that a deduction corresponding to the amount received as spouse allowance or supplement is granted in calculating taxable income, the tax legislation will also be amended to stipulate that the amount of the repayment that is deducted in calculating income, for a given taxation year, must be included in calculating taxable income for the said year.

These changes will apply as of taxation year 1999.
1.2.5 Restriction on the deductibility in the calculation of taxable income of amounts subject to federal tax on old age security benefits

The federal government stipulates that an individual must, for a taxation year, pay a “recapture” tax on old age security benefits included in the calculation of his income for the year. Essentially, a 15% tax must be paid on the portion of the individual’s income which exceeds a certain threshold ($53,215 in 1998), up to the total of the amounts included in calculating his income for the year as a pension, supplement or spouse allowance under the Old Age Security Act.

Under Québec’s tax legislation, an individual can deduct in calculating his income, for a given taxation year, the amount he must pay for the year to the federal government as recapture tax.

Considering that the amount included in the calculation of an individual’s income as a supplement or spouse allowance, for a given taxation year, is allowable as a deduction in calculating his taxable income for such year, this deduction should be restricted to take into account that the amount payable as recapture tax is also allowable as a deduction in calculating the individual’s income.

More specifically, the tax legislation will be amended to stipulate that the amount an individual may deduct in calculating his taxable income, for a given taxation year, regarding old age security benefits will be equal to the excess of the amount included in calculating his income, for the year, as a spouse allowance or supplement, over the amount he must pay, for the year, to the federal government as recapture tax.

This change will apply as of taxation year 1999.
2. MEASURES CONCERNING BUSINESSES

2.1 Integrated strategy for the knowledge-based economy

Québec’s tax legislation includes a set of measures in favour of businesses that carry out scientific research and experimental development (R&D) and other forms of innovation in sectors of activity that are identified with the knowledge-based economy. Such is the case with measures relating to R&D, information technology development centres (ITDC), the Cité du multimédia, the Centre national des nouvelles technologies de Québec (CNNTQ), new economy centres (CNE) and the production of multimedia titles.

To better adapt the measures relating to R&D and the knowledge-based economy in general, many adjustments will be made to the existing rules.

2.1.1 Scientific research and experimental development

- Transition period regarding the extension of the tax holiday for foreign researchers to five years

A person who does not reside in Canada and comes to work in Québec as part of a R&D project can claim a tax exemption on the salary paid to him as a foreign researcher. This exemption consists of a deduction in calculating the taxable income of the foreign researcher.

It was announced in the Budget Speech of March 9, 1999, that the exemption period for such a researcher would be extended from two to five years for any individual who, after such date, commenced work as an employee with an eligible employer, under an employment contract concluded after such date.

To assist employers to retain researchers who are eligible for the two-year tax holiday, the new deduction granted for five years, in relation to a foreign researcher, will also apply to researchers whose “research activity period”, as currently defined in the tax legislation, namely the period of two years, was under way at any time during 1999. Accordingly, for such researchers, an additional three years will be added to their research activity period, for the purposes of this measure, provided the other conditions stipulated by the tax legislation are satisfied.
Period for obtaining an eligibility certificate as a foreign researcher

For a researcher to be entitled to the tax holiday for foreign researchers, the employer must obtain, no later than 30 days after the date the employment contract is concluded or the researcher commences work, an eligibility certificate issued by the ministère de la Recherche, de la Science et de la Technologie (MRST). In the March 9, 1999 Budget Speech, another component, applicable to certain foreign experts hired to carry out an R&D project, was added to the tax holiday for foreign researchers. As in the case of researchers, an eligibility certificate must be obtained for these experts within 30 days.

This period of 30 days is rather short and, on occasion, may impose constraints on the employer. Consequently, this period will be lengthened.

Accordingly, an eligible employer may submit an application for an eligibility certificate to the MRST for a foreign researcher within a period expiring on the last day of February of the year following either the year in which the employment contract is concluded or the year in which the researcher commenced work, whichever is later. This rule will also apply regarding the new component for foreign experts.

This change will apply to employment contracts concluded after the day of publication of this Information Bulletin, or dates of commencement of work after that day.

However, in the event that an application for an eligibility certificate is not submitted within the deadline, whether the application is subject to the 30 day period or is subject to the new rules described above, the certificate may be issued, if the other eligibility conditions are satisfied, but it will apply only for the taxation year in which the application was submitted and subsequent years, if any. More specifically, the research activity period will begin to run according to the rules already stipulated in the tax legislation, that is when the researcher commenced work, and not as of the date of issue of the eligibility certificate.

This last change will apply regarding applications for eligibility certificates submitted in 1999 and subsequent years.
2.1.2 Information technology development centres

The measures relating to ITDCs were introduced in the March 25, 1997 Budget Speech. Briefly, these measures are designed to support corporations which undertake to carry out, within designated buildings, innovative projects in the field of new information technologies and communications.

Changes to the tax holiday for foreign training instructors working in CDTIs

The existing tax rules stipulate that foreign training instructors employed by a corporation which carries on a business in an ITDC can claim, under certain conditions, a deduction similar to the one available to foreign researchers, regarding the salary paid to them by the corporation for a period of five years as training instructors.

Extension of the tax holiday for foreign experts

In the March 9, 1999 Budget Speech, a streamlining measure was introduced regarding the eligibility criteria of foreign training instructors. Briefly, this measure replaces the “almost exclusively” criterion for the proportion of duties that must be devoted to providing training so that the employee may claim the tax holiday, with a “mainly” criterion.

This streamlining measure will be replaced by an extension of the tax holiday for foreign experts.

More specifically, the notion of “foreign training instructor”, for the purposes of this holiday, will be replaced with a much broader notion of “foreign expert”. The duties of such a foreign expert with the eligible corporation will have to consist almost exclusively in carrying out:

— training;

— research and development;
— specialized duties in terms of management in the field of innovation, commercialization, transfer of technology or innovation financing;

— a combination of the above items.

More specifically, the other conditions that must be satisfied for an individual to qualify as a “foreign training instructor” will continue to apply, subject to the changes described below, in order to determine whether the individual qualifies as a “foreign expert”.

These changes will apply as of March 26, 1997.

Transition period regarding the extension of the tax holiday to five years

A transition period similar to the one described above for foreign researchers will be stipulated for the tax holiday, extended from two to five years in the March 9, 1999 Budget Speech, for foreign experts employed by a corporation which carries on a business in an ITDC.

Accordingly, a foreign expert of an ITDC for whom the eligible activity period of two years was under way at any time during 1999, will benefit for a three-year extension of the tax holiday, provided the other conditions stipulated by the tax legislation are satisfied.

Administrative rules relating to eligibility certificates

In order for a foreign expert employed by a corporation that carries on a business in an ITDC to be eligible for the tax holiday, the corporation must have obtained, no later than 30 days after the conclusion of the employment contract or after the expert commences work, an eligibility certificate from the Bureau de développement de la nouvelle économie (BDNE). The expert must also satisfy certain conditions stipulated in the tax legislation and whose evaluation is currently the responsibility of the ministère du Revenu du Québec (MRQ).
These rules will be changed in two ways. First, the requirement to obtain a certificate within 30 days will be withdrawn and the corporation will instead have to submit an annual application for an eligibility certificate regarding an expert no later than the last day of February of the year following that for which the expert wishes to claim a tax exemption on his income from employment as a foreign expert. Second, the conditions bearing on the nature and extent of the duties carried out by a foreign expert with the corporation, currently stipulated in the tax legislation, will henceforth be checked annually by the BDNE, rather than the MRQ, as part of the examination of the annual application for an eligibility certificate. More specifically, the criterion under which the expert must work almost exclusively for the corporation will continue to be administered by the MRQ.

These changes will apply as of March 26, 1997. Accordingly, in the case of foreign experts whose employment contract was concluded before the date of publication of this Information Bulletin or who commenced working before such date, the annual applications for an eligibility certificate will have to be filed with the BDNE for taxation years 1997, 1998 and, if applicable, 1999, even if a certificate has already been obtained for these specialists in accordance with the earlier rules. These applications will have to be filed with the BDNE no later than February 29, 2000.

- Calculation of the tax credit for salaries -

Briefly, a corporation which carries out an innovative project in an ITDC can obtain, under certain conditions, a refundable tax credit for the eligible salary it pays to its eligible employees.

For the purposes of this tax credit, the eligible salary, for a taxation year, of an eligible employee working in an ITDC, must be reduced, in particular, by any amount of government assistance attributable to such salary which the corporation has received, is entitled to receive or may reasonably expect to receive at the time of filing its tax return for such taxation year.

In addition, the existing rules stipulate that this tax credit on salaries, in relation to an eligible employee, must be reduced so that the total of this tax credit and of any government assistance in the form of a wage subsidy or tax credit based on salaries, does not exceed the lesser of 60% of the salary of such eligible employee, for a taxation year, or $25 000, the latter amount calculated on an annual basis.
A change will be made to the definition of government assistance applicable both for the purposes of the calculation of this tax credit and for the purposes of the calculation of its reduction in order to exclude wage subsidies paid under the Private Investment and Job Creation Promotion Fund (programme FAIRE).

This change will apply regarding salaries paid as of June 16, 1999.

- **Streamlining of eligibility criteria for eligible specialized equipment**

Briefly, a corporation which carries out an innovative project in an ITDC can obtain, under certain conditions, a refundable tax credit for the eligible specialized equipment it acquires or leases.

For this purpose, the existing legislation stipulates, in particular, that the eligible specialized equipment must be used exclusively in a building housing an ITDC.

Now, a corporation which carries out an innovative project in an ITDC may, in the course of carrying out this project, be required to use the specialized equipment, otherwise eligible, outside the building housing the ITDC, for instance for testing purposes.

To recognize this reality, the eligibility criterion bearing on the use of eligible specialized equipment in a building housing an ITDC will be changed to stipulate that such equipment must instead be used mainly within such building.

This streamlining measure will apply as of March 26, 1997.

- **Increase in the floor space of the Montréal ITDC**

The Montréal ITDC currently consists of a general designation of rental premises that must not exceed a total of 15,000 square metres, that may be located in any designated building of the Cité du multimédia.
Because of the large number of corporations that have indicated their intention to carry out an innovative project in the Montréal ITDC, its total floor space will be doubled, from 15,000 to 30,000 square metres.

In addition, the BDNE will ensure that the designation of rental space does not, at any time, exceed this limit of 30,000 square metres.

- Sherbrooke ITDC

The current designation of the Sherbrooke ITDC will be replaced by the designation of a new building to be constructed, on the site designated as lot number 1 252 371 in the cadastre of Québec, Sherbrooke landed district, located at the intersection of Aberdeen and South Wellington streets.

- Cité du multimédia

The Cité du multimédia, located near Montréal’s Old Port, was created on June 15, 1998. Briefly, eligible corporations which move into the Cité du multimédia can obtain a refundable tax credit for eligible salaries they incur and pay to eligible employees to carry out eligible activities in designated buildings in Montréal.

- Payment of tax credits

Under existing rules, an eligible corporation that carries on, after June 15, 1998, an eligible activity and which satisfies certain conditions can, regarding such activity, receive the tax benefits inherent to carrying on such activity in a designated building, as if it actually occupied such a building.

To benefit from these transitional rules, the corporation must, among other conditions, submit an application to the BDNE for analysis and eventually conclude a commercial lease for premises in a designated building. The lease must, in particular, stipulate that the premises will be occupied as soon as possible, in view of their availability, and the certificate will be issued on the condition that the eligible activities are carried out by the corporation in premises of the designated building within a reasonable period of time.
In addition, a corporation’s eligibility certificate relating to an eligible activity to be carried out in premises in a designated building, takes effect no sooner than the date the corporation concludes the commercial lease for such premises. Accordingly, provided it complies with the conditions otherwise applicable, the corporation is deemed to carry out an eligible activity in a designated building for the period extending from the time such activity begins to be carried out, or the date the lease is concluded if later, until the time it actually begins to carry out such activity in the premises covered by the lease.

The refundable tax credits that are earned during the transitional period by an eligible corporation, in regard to an eligible activity, may not be claimed before the eligible corporation has actually begun to carry out such activity to a significant degree in the premises covered by the commercial lease and, consequently, cannot be paid.

The restriction concerning the request and the payment of the refundable tax credits that are earned during the transitional period will be withdrawn.

This change will apply as of June 16, 1998.

**Tax base of the tax credit on salaries**

Under existing rules, the expression “eligible salary” of a corporation, for a taxation year, regarding an eligible employee, means the salary incurred by the corporation, in the year, regarding such employee when he qualifies as an eligible employee, which can be reasonably considered as relating to the carrying out of an eligible activity, in view of the time devoted to it by the employee.

However, the amount of the eligible salary incurred by a corporation, regarding an eligible employee, for a taxation year, cannot exceed, for the period from June 16, 1998 to June 15, 1999, an amount of $41,667, calculated on an annual basis. For salaries incurred after June 15, 1999, the amount of $41,667 must be replaced by an amount of $37,500.

A change will be made to the tax base of this tax credit in order to specify that the limit of $37,500 will also be calculated by taking into account the time devoted to carrying out an eligible activity by an eligible employee.
Accordingly, the amount of the eligible salary incurred by a corporation, regarding an eligible employee, for a taxation year, will be equal, for salaries incurred after June 15, 1999, to the lesser of $37,500 (calculated on an annual basis and taking into account the time devoted to carrying out an eligible activity by an eligible employee for the period of the year concerned), and the amount of salary incurred by the corporation regarding such employee.

In addition, the tax credit on salaries, in relation to an eligible employee, must generally be reduced so that the total of this tax credit and of any government assistance in the form of a wage subsidy or tax credit based on salaries does not exceed the lesser of 60% of the portion of the salary of such eligible employee that relates to the carrying on of an eligible activity, for a taxation year, or $25,000, the latter amount being calculated on an annual basis.

More specifically, the amount of $25,000, while calculated on an annual basis, is not reduced to take into account the time devoted to the carrying out of an eligible activity by an employee for the period of the year during which he qualifies as an eligible employee.

Finally, an “eligible employee” who devotes at least 90% of his time to eligible activities will be deemed to devote all his time to them.

This last change will apply as of June 16, 1998.

- Withdrawal of the eligibility criterion bearing on the proportion of eligible activities to be carried out in a designated building -

Under existing rules, a corporation can obtain an eligibility certificate, for a taxation year, if it carries out mainly eligible activities in a designated building of the Cité du multimédia and only salaries related to eligible activities entitle the corporation to the tax credit.

The criterion bearing on the proportion of eligible activities that must be carried out in a designated building, to obtain an eligibility certificate, could prevent a corporation that so wishes from consolidating all its activities in such a building.
To help corporations that so wish to consolidate their activities, the eligibility criterion bearing on the proportion of eligible activities that must be carried out in a designated building will be withdrawn. More specifically, only salaries related to eligible activities will continue to entitle a corporation to the tax credit.

This change will apply as of June 16, 1998.

Employees in training

Under existing rules, the expression “eligible employee” of an eligible corporation means an employee regarding whom the corporation has obtained an eligibility certificate from the Minister of Finance to the effect that the employee, at the time a salary is incurred regarding him:

— carries out, supervises or directly supports, in a designated building, work relating to the execution of an eligible activity of the corporation;

— holds a full-time job, with a minimum of 26 hours of work per week, for a minimum planned length of 40 weeks; and

— carries out his duties exclusively or almost exclusively in a designated building.

A clarification will be made to stipulate that an otherwise eligible employee, who takes supplementary training at the request of his employer, even outside a designated building of the Cité du multimédia, will be deemed to comply with the criteria indicated above for such training period, if he receives his normal remuneration during such training period.

This change will apply as of June 16, 1998.

2.1.4 Centre national des nouvelles technologies de Québec and new economy centres

The measures relating to the CNNTQ and the CNEs, or new economy centres, were introduced in the March 9, 1999 Budget Speech. Briefly, eligible corporations which move into designated premises of the CNNTQ or into a designated building of a CNE may obtain support comparable to that available to corporations located in the Cité du multimédia, namely a refundable tax credit on the salaries of their employees.
CNNTQ buildings

Precise technical designation of the perimeter of the CNNTQ

It was indicated in the March 9, 1999, that the precise technical designation of the perimeter of the CNNTQ would be made public shortly. This technical designation is given in the appendix.

List of buildings

The owners of the buildings located within the perimeter of the CNNTQ have been invited, as part of a request for proposals of rental premises, to provide the BDNE with a list of available premises and details concerning leasing conditions. Further to these proposals, the BDNE has drawn up a list of premises that could be officially designated, and corporations wishing to carry out eligible activities in designated premises of the CNNTQ are invited to consult this list by contacting the BDNE.

However, the list of premises that could be officially designated will not be drawn up solely from the list of available premises submitted to the BDNE as part of the request for proposals of rental premises. The owner of a building located within the perimeter of the CNNTQ may, at any time, submit the list of available premises in his building to the BDNE and the details concerning leasing conditions. The BDNE may, should it deem appropriate, enter them on the list of premises which may be officially designated.

Payment of tax credits

Under existing rules, an eligible corporation that carries on, after March 9, 1999, an eligible activity and which satisfies certain conditions can, regarding such activity, receive the tax benefits inherent to carrying on such activity into designated premises of the CNNTQ or into a designated building of a CNE, as if it actually occupied such designated premises of the CNNTQ or such designated building of a CNE.
Like the change made in the case of the Cité du multimédia, the restriction concerning the request and the payment of the refundable tax credits that are earned during the transitional period will be withdrawn.

This change will apply as of March 10, 1999.

- Tax base for tax credits on salaries -

Briefly, a corporation which carries out an eligible activity in designated premises of the CNNTQ or in a designated building of a CNE may obtain, under certain conditions, a refundable tax credit of 40% on the eligible salary it pays to its eligible employees. However, this tax credit may not exceed $15 000 per eligible employee, on an annual basis, which corresponds to a maximum salary of $37 500. In addition, a ceiling similar to the one applicable in the case of the Cité du multimédia also applies to these tax credits.

For the purpose of these tax credits, the expression “eligible salary” of a corporation, for a taxation year, regarding an eligible employee, means the salary incurred by the corporation, during the year, regarding such employee while he qualifies as an eligible employee, which can reasonably be considered to relate to the carrying out of an eligible activity, in view of the time devoted to it by the employee.

Like the tax credit an eligible corporation operating in the Cité du multimédia may claim regarding the eligible salaries it incurs, a change will be made to the tax base of these tax credits to stipulate that the limit of $37 500 will be calculated by taking into account the time devoted to carrying out an eligible activity by an eligible employee.

In the same way as in the case of the tax credit an eligible corporation operating in the Cité du multimédia may claim, the amount of $25 000, used to establish the reduction of the tax credit by considering the total of this tax credit and of any government assistance in the form of a wage subsidy or a tax credit based on salaries, will not be reduced to take account of the time devoted to carrying on an eligible activity by an employee for the period of the year during which he qualifies as an eligible employee.
In addition, an “eligible employee” who devotes at least 90% of his time to eligible activities will be deemed to devote all his time to them.

These changes will apply as of March 10, 1999.

- Withdrawal of the eligibility criterion bearing on the proportion of eligible activities to be carried out in designated premises of the CNNTQ or in a designated building of a CNE

Under existing rules, a corporation can obtain an eligibility certificate, for a taxation year, if it carries out mainly eligible activities in designated premises of the CNNTQ or in a designated building of a CNE.

Like the change made in the case of the Cité du multimédia, this eligibility criterion bearing on the proportion of eligible activities that must be carried out in designated premises of the CNNTQ or in a designated building of a CNE will be withdrawn.

This change will apply as of March 10, 1999.

- Employees in training

Under existing rules, the expression “eligible employee” of an eligible corporation means an employer regarding whom the corporation has obtained an eligibility certificate from the Minister of Finance to the effect that the employee, at the time a salary is incurred regarding him:

- carries out, supervises or directly supports, in designated premises of the CNNTQ or in a designated building of a CNE, work relating to the execution of an eligible activity of the corporation;

- holds a full-time job, with a minimum of 26 hours of work per week, for a minimum planned length of 40 weeks; and

- carries out his duties exclusively or almost exclusively in designated premises or in a designated building, as the case may be.
Like the change made in the case of the Cité du multimédia, a clarification will be made to stipulate that an otherwise eligible employee who takes supplementary training at the request of his employer, even outside designated premises of the CNNTQ or a designated building of a CNE, will be deemed to comply with the criteria indicated above for such training period, if he receives his normal remuneration during such training period.

This change will apply as of March 10, 1999.

2.1.5 Refundable 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. A new component of this tax credit was introduced, in the March 31, 1998 Budget Speech, for corporations whose activities consist almost exclusively in producing multimedia titles in an establishment located in Québec.

Replacement of the notion of final version ready for commercialization

Under existing rules, a corporation which produces a multimedia title can obtain a tax credit regarding the eligible labour expenditures it incurs to carry out eligible production work in relation to multimedia titles otherwise eligible. For this purpose, “eligible production work” means, briefly, work carried out to complete the production stages of a multimedia title ranging from the design stage to the completion of a final version ready for commercialization.

The notion of final version ready for commercialization may cause certain interpretation problems, especially in the case of titles distributed wholly or partly over the Internet. In addition, some production work may be necessary to fine-tune a title or ensure that it remains interesting, even after a final version ready for commercialization is available.

In this context, the notion of final version ready for commercialization will be replaced so as to extend the period during which the work done to carry out the production stages of a multimedia title can qualify as “eligible production work”.
More specifically, “eligible production work” will generally mean the work done to complete the production stages of a multimedia title ranging from the design stage to that which ends 24 months after the completion date of a final version.

For this purpose, “the completion date of a final version “ will correspond to the date on which the distribution of a multimedia title begins. For instance, in the case of a multimedia title distributed over the Internet, such date should correspond to the date it is put on line. However, in the case of the general component of this tax credit, the BDNE or the Société de développement des entreprises culturelles (SODEC), as the case may be, will be responsible for setting this date as part of the process of issuing certificates relating to multimedia titles eligible for this general component. Concerning the certificates issued regarding eligible multimedia titles before the publication date of this Information Bulletin, the corporations concerned will have to ask SODEC, providing it with the relevant information, to set this date.

This change will apply regarding a taxation year of a corporation which ends after May 9, 1996. However, concerning eligible multimedia titles whose completion date of a final version is more than 24 months prior to the publication date of this Information Bulletin, the period during which the work done to carry out the production stages of a multimedia title may qualify as “eligible production work” will be extended and will end on the publication date of this Information Bulletin, rather than 24 months after the completion date of a final version.

**Clarification regarding eligible labour expenditures of a corporation eligible for the new component**

The March 31, 1998 Budget Speech stipulated that “eligible labour expenditures”, for the purpose of this new component, would consist, among other things, of salaries incurred with persons who are eligible employees. For this purpose, it was stated that an “eligible employee” would mean a person who, in particular, undertakes, supervises, or directly supports, in an establishment covered by a certificate, specialized work relating to the production of multimedia titles that are otherwise eligible.

A change will be made to the definition of “eligible labour expenditures” to stipulate that the salary incurred with persons who are eligible employees will be calculated taking into consideration the time devoted to such activities by such employees. In addition, an “eligible employee” who devotes at least 90% of his time to the activities indicated above will be deemed to devote all his work time to them.
This change will apply regarding a taxation year of a corporation ending after May 9, 1996.

- Postponement of the transfer of responsibilities from the Société de développement des entreprises culturelles to the Bureau de développement de la nouvelle économie

It was announced in the March 9, 1999 Budget Speech that the responsibilities of SODEC regarding the issuing of certificates relating to multimedia titles eligible for the general component of this tax credit as well as certificates relating to corporations eligible for the new component of this tax credit would be transferred to the BDNE. It was also announced that BDNE would grant loan guarantees to secure interim financing of that tax credit as well as the others tax credits related to knowledge-based economy.

The BDNE was to assume these new responsibilities on March 10, 1999. SODEC was to continue administering this tax credit until May 31, 1999 regarding applications for certificates filed with it no later than March 9, 1999.

This transfer of responsibilities is postponed to October 1, 1999. Accordingly, corporations that wish to obtain the certificates mentioned above must, until September 30, 1999, send their applications to SODEC and, thereafter, to the BDNE. The BDNE will transfer those applications it has received since March 10, 1999 to SODEC. Lastly, SODEC will complete the analysis of applications submitted to it before October 1, 1999.

2.1.6 Refundable tax credit for technological adaptation services

The March 9, 1999 Budget Speech introduced a new refundable tax credit, consisting of two components, to further support small businesses in gathering and processing strategic information as well as their cooperative research and innovation efforts. The first component of this tax credit concerns business information, i.e. the result of watch activities carried out by a business watch centre, while the second component concerns liaison and transfer services.
Briefly, the tax credit an eligible corporation may claim, for a taxation year, is determined by multiplying by 40% the amount of eligible expenditures incurred by the eligible corporation, during such year, with an eligible business watch centre, an eligible liaison and transfer centre, or an eligible college centre for technology transfer, as the case may be.

To this regard, it should be noted that centres, other than business watch centres, liaison and transfert centres and college centres for thechnology transfert actually eligibles, may become eligible in the futur if all the conditions to become eligible are met according to the different sectorials ministery programs that may be concern by that subject.

For the purposes of this tax credit, eligible expenditures refer to the portion of fees charged by an eligible business watch centre, an eligible liaison and transfer centre, or an eligible college centre for technology transfer, as the case may be, in consideration of the products and services it offers, and which correspond to the following amounts:

— an amount equal to 80% of the fees relating to watch services or liaison or transfer services, as the case may be;

— the amount of subscription fees for watch services or products, or liaison and transfer services or products, as the case may be;

— the amount of fees for participation in training and information activities relating to watch services or liaison and transfer services, as the case may be.

In view of the special expertise of the ministère de l'Industrie et du Commerce (MIC) and of the ministère de la Recherche, de la Science et de la Technologie (MRST) in this area, the tax legislation will be changed to stipulate that the Minister of Revenue may consult the MIC or the MRST, as the case may be, to see if a particular service or product qualifies, respectively, as a watch service or product, or as a liaison and transfer service or product.

For more certainty, only the information necessary for obtaining a MIC or MRST advice, as the case may be, will be communicated to it, in order to preserve the otherwise confidential nature of the information obtained by the MRQ in the application of a fiscal law.

This change will become effective on the date the bill implementing it is assented to.
2.2 Introduction of a refundable tax credit for the Cité de l’optique

The March 9, 1999 Budget Speech announced a support program to strengthen the role of the Québec City region in the field of optics and photonics and to make this region a world-scale hub of excellence in this field.

This program provides funding under three components: the first focuses on joint business-university research projects, emphasizing practical and commercializable applications; the second concerns pre-commercialization projects or projects for the commercialization of new processes or products developed by businesses in the Québec City region; the last component deals with assistance for job creation for businesses establishing themselves or expanding in the Québec City region.

Rounding out the budget program already in place, a new refundable tax credit will be introduced, for a period of four years beginning on January 1, 1999, to offset the costs tied to the apprenticeship period of new employees. More specifically, this tax credit will be granted for the increase in payroll attributable to the production or commercialization employees of an eligible corporation operating in the optics, photonics or laser sector in the Québec City region. The rate of this new refundable tax credit will be 40%.

- Eligible corporation

In general, any corporation other than an excluded corporation, which, during a calendar year, carries on a business in Québec and has an establishment there, may, under certain conditions, claim this tax credit for such calendar year.

More specifically, a corporation, for the taxation year in which the calendar year ends, must carry on, in the Québec City region, a business manufacturing and commercializing apparatus or equipment relating to the optics, photonics or laser sector.

- Québec City region

The Québec City region will correspond to the metropolitan Québec City census region, as described by Statistics Canada in the 1996 Census Dictionary.
Business manufacturing or commercializing apparatus or equipment relating to the optics, photonics or laser sector

For the purpose of this tax credit, a “business manufacturing or commercializing apparatus or equipment relating to the optics, photonics or laser sector” will mean a business whose activities consist in manufacturing, in whole or in part, apparatus or equipment, notably in the fields of fibre optics, quantum optics, lasers, opto-electronics, imaging or optical information processing, and, incidentally, if applicable, commercializing them, or any other business whose activities are related to these fields, and for which the MIC has issued an eligibility certificate.

Details of determination of the tax credit

An eligible corporation may, regarding a calendar year, claim the tax credit based on the increase in payroll attributable to its eligible employees, according to the following formula:

\[
\text{Amount of tax credit} = 40\% \times (A - B)
\]

Where:

— the letter A represents all salaries paid by the corporation to its eligible employees for the calendar year;

— the letter B represents the reference amount for the corporation for the calendar year.

For this purpose, the salary to be considered will be the employment income of an eligible employee, excluding the attendance fees of a director, a bonus, performance premium, remuneration for work done outside normal working hours, a commission and taxable benefits that must be included in calculating such employee’s employment income.
The reference amount of a corporation, for a given calendar year, will be equal to all salaries paid, during the corporation’s reference period, for such year, to its eligible employees and to employees of an establishment located in Québec of the corporation who would be eligible employees if they had been employees of an establishment of the corporation located in the Québec City region. Special rules, described below, will be stipulated for calculating the reference amount in the case of associated corporations, and in cases of mergers or winding-up.

The reference period of a corporation, for a given calendar year, will correspond to the number of days of the preceding calendar year in which the business manufacturing and commercializing apparatus or equipment relating to the optics, photonics or laser sector was carried on in Québec by the corporation. Particular terms and conditions, described below, will be stipulated regarding corporations resulting from a merger and those to which certain provisions concerning winding-up are applied.

To determine the tax credit, an eligible corporation having both an establishment in the Québec City region and one elsewhere in Québec must calculate the amount of the increase in its payroll attributable to eligible employees as though it had only one establishment in the Québec City region. However, this amount must not exceed the total of the amount of the increase in payroll attributable to its eligible employees and to employees of an establishment located in Québec of the corporation who would be eligible if they were employees of an establishment of the eligible corporation located in the Québec City region.

In addition, rules similar to those stipulated under the tax credit for the creation of jobs in the clothing and footwear industry will be applicable when the activities that a person or partnership carried out in Québec, in relation to a business manufacturing or commercializing apparatus or equipment relating to the optics, photonics or laser sector, decline or cease and, as a result, the activities of an eligible corporation relating to such a business commence or increase in scope, in an establishment of such corporation located in the Québec City region.

Accordingly, a newly constituted corporation who will establish itself in the Québec City region will be able, for a given calendar year, to claim the tax credit according to the total increase in payroll attributable to its eligible employees, subject, in particular, to the rules relating to associated corporations and to transfers of activities from a person to another.
Eligible employee

An “eligible employee” of an eligible corporation will mean an employee of an establishment of such corporation located in the Québec City region, who is not a specified shareholder of such corporation.

In addition, the duties of such individual, with the eligible corporation, must be devoted in a proportion of at least 90%, directly to the manufacturing or, if applicable, to the commercialization of apparatus or equipment relating to the optics, photonics or laser sector. Accordingly, subject to the other conditions that must be satisfied, an employee who devotes at least 90% of his time carrying out, supervising or directly supporting the manufacturing or, if applicable, the commercialization of such apparatus or equipment, is an eligible employee for the purpose of this tax credit. More specifically, the duties related to general administration will not be eligible.

Associated corporations

To set the amount used as the basis for the calculation of the tax credit of an eligible corporation which, at the end of a given calendar year, is associated with one or more other corporations, the following amounts will be determined on a consolidated basis:

— all:
  — the salaries paid for the given calendar year by the corporations associated among themselves, at the end of such calendar year, to their eligible employees; and
  — in the case of an associated corporation, at the end of such calendar year, which does not have eligible employees, the lesser of its reference amount which would otherwise be determined, for the calendar year, or the salaries paid, for the calendar year, to the employees of an establishment located in Québec of the corporation who would be eligible employees if they had been employees of an establishment of the corporation located in the Québec City region;

— all the reference amounts of each of the corporations associated among themselves, at the end of the given calendar year, which would be otherwise determined for such calendar year.
For the purpose of these rules, an associated corporation which has both an establishment in the Québec City region and another establishment elsewhere in Québec will be considered as a separate corporation regarding each of these establishments.

In addition, corporations associated among themselves which are eligible corporations must divide among themselves the amount of the increase in payroll attributable to eligible employees by filing an agreement to that effect with the MRQ. However, the amount thus allocated to an eligible corporation may not exceed the amount of the increase in payroll attributable to its eligible employees.

- Excluded corporations

The following corporations may not claim the tax credit for a calendar year:

- a corporation which obtains more than 10% of its gross income, for the taxation year in which the calendar year ends, from a source other than the operation of an eligible business;

- a person who is tax-exempt for the taxation year in which the calendar year ends;

- a Crown corporation or a subsidiary wholly controlled by such corporation.

- Special terms and conditions

Reference amount

To determine the reference amount of a corporation resulting from a merger for a given calendar year, the calculation of the reference amount described above will include any amount thus determined regarding each replaced corporation, for a number of days corresponding to reference period of the corporation resulting from the merger.
A similar rule will apply, in a winding-up situation,\textsuperscript{5} to the determination of the reference amount of a parent corporation so as to include the reference amount of its subsidiaries.

\textbf{Reference period}

To determine the reference period of a corporation resulting from a merger, such period will include the number of days of the preceding calendar year in which a business manufacturing or commercializing apparatus or equipment relating to the optics, photonics or laser sector was carried on in Québec by a replaced corporation.

In the case of a corporation which was a parent corporation in a winding-up,\textsuperscript{6} the reference period will include the number of days of the preceding calendar year, not exceeding 365, in which a business manufacturing or commercializing apparatus or equipment relating to the optics, photonics or laser sector was carried on in Québec by a subsidiary.

\textbf{Reduction in the amount of salary paid to eligible employees}

The total amount of salaries paid to eligible employees by an eligible corporation (or to employees of an establishment of the corporation located in Québec, who would be eligible employees if they had been employees of an establishment of the corporation located in the Québec City region), for a calendar year, must be reduced by the amount of any government assistance, any non-government assistance and any profit or advantage, according to rules similar to those applicable under the tax credit for the creation of jobs in the clothing and footwear industry.

In addition, this amount must also be reduced by the amount of salaries regarding which another refundable tax credit has been granted, or a super-deduction for R&D has been granted. However, the tax credit for the creation of jobs will not be taken into consideration for this purpose, and an eligible corporation may accordingly claim, regarding calendar year 1999, both the latter tax credit and the new tax credit.

\textsuperscript{5} Winding-up of a subsidiary at least 90\% of the shares of whose capital stock belonged to the parent corporation.

\textsuperscript{6} \textit{Ibid.}
This new refundable tax credit will not be considered either as an amount of assistance or as an incentive payment, for the purpose of this measure.

**Other application details**

Assuming that a salary expenditure regarding which a tax credit has been granted is refunded to the eligible corporation, the tax credit thus granted will be recaptured, according to rules similar to those applicable under the tax credit for the creation of jobs in the clothing and footwear industry.

In addition, this tax credit may not be applied against the tax instalments of an eligible corporation in relation to income tax and the tax on capital.

To claim this tax credit, regarding a calendar year, an eligible corporation must enclose with its tax return, for its taxation year in which the such calendar year ends, a form prescribed by the Minister of Revenue. A copy of the eligibility certificate issued by the MIC will have to be attached to its tax return.

In addition, salaries for which a tax credit is claimed by an eligible corporation must have been paid at the time the tax credit is claimed.

Lastly, the Minister of Revenue may consult the MIC to see if a given employee qualifies as an eligible employee. Once again, for more certainty, only the information necessary for obtaining a MIC advice will be communicated to it, in order to preserve the otherwise confidential nature of the information obtained by the MRQ in the application of a fiscal law.

**Anti-avoidance rule**

An anti-avoidance rule will stipulate that a corporation may not be entitled to this tax credit if, because of transactions or operations, the Minister of Revenue may reasonably consider that one of the main goals of such transactions or operations is to enable the corporation to claim a tax credit that it would otherwise not have obtained.
Application date

This measure will apply regarding calendar years 1999 to 2002.

2.3 Measures concerning culture

2.3.1 Refundable tax credit for Québec film and television production

The refundable tax credit relating to Québec film and television productions applies to labour expenditures incurred by a corporation which produces a Québec film, according to the meaning given to this expression by the Regulation respecting the recognition of a film as a Québec film. This tax credit generally corresponds to 33 1/3% of eligible labour expenditures, or to 45% of eligible labour expenditures in the case of certain French-language feature films and certain documentaries. The labour expenditures eligible for this tax credit may not, however, exceed 45% of production expenses.

The notion of production expenses includes certain amounts which are recorded without a disbursement having necessarily been made in their regard by the production corporation. In particular, such is the case for the producer’s fees and certain general administration expenses. As a general rule, each of these two categories of expenses corresponds to 10% of total filming expenses (part B of Telefilm Canada’s standardized budget) and postproduction expenses (part C of Telefilm Canada’s standardized budget).

Annual production of films and television programs in Québec amounts to more than $1 billion, including independent Québec productions, productions by television networks and foreign films. However, such production is confined almost exclusively to the Montréal region.

Lastly, there are approximately 750,000 people in Québec who are deaf or hard of hearing, and the sub-titling of television programs and films on videocassettes is essential for them to have access to these productions. Certain television programs and many feature films produced with the assistance of the refundable tax credit for film and television production are never sub-titled and accordingly remain inaccessible for persons who suffer from a hearing impairment.
Technical change concerning the notion of production expenses

On June 23, 1998, it was announced that the tax legislation would be changed to extend eligibility, as production expenses, to an amount for producer’s fees and an amount for general administration expenses, each of which is equal to the greater of the following amounts:

— the expenses actually incurred;
— 10% of total filming expenses and postproduction expenses.

It appears that the financial structure of certain productions is such that the expenses incurred as producer’s fees and those incurred as general administration expenses substantially exceed the above-mentioned standard of 10% of total filming expenses and postproduction expenses.

To prevent amounts substantially greater than the generally recognized standard from being included in calculating production expenses as producer’s fees and general administration expenses, the tax legislation will be changed so that the total of the producer’s fees and general administration expenses, calculated in accordance with the legislation implementing the announcement mentioned above, may not exceed 25% of the total of filming expenses and postproduction expenses.

More specifically, eligibility as production expenses will be granted to an amount for producer’s fees and an amount for general administration expenses each of which is equal to the greater of the following amount:

— the expenses actually incurred;
— 10% of the total of filming expenses and postproduction expenses.

However, the total of producer’s fees and general administration expenses, calculated in accordance with the preceding paragraph, may not exceed 25% of the total of filming expenses and postproduction expenses.

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7 Ministère des Finances du Québec Information Bulletin 98-3.
This change will apply to film or television productions for which the major photography or recording work begins after the publication date of this Information Bulletin.

- Improvement concerning regional film and television productions

To encourage the production of films and television programs that better reflect the realities of Québec’s regions, and to help producers based outside the Montréal region to interest local and national broadcasters in their projects, the refundable tax credit for film and television productions will be improved regarding regional productions.

In general, the rates of this tax credit will be raised for eligible labour expenditures, incurred by an eligible corporation, for services provided outside the Montréal region for an eligible production.

- Eligible corporations

Corporations eligible for this improvement, for a taxation year, mean corporations otherwise eligible for the tax credit for film and television production, regarding which the Société de développement des entreprises culturelles (SODEC) has issued an eligibility certificate for such year. However, a corporation which holds a broadcasting licence from the Canadian Radio-Television and Telecommunications Commission or which, at any time during the year or the preceding 24 months, was not at arm’s length with a corporation holding such a licence, will not be eligible for this improvement.

SODEC will issue an eligibility certificate regarding a corporation, for a taxation year, when such corporation:

— does not carry out its film or television production activities mainly within the Montréal region, during the taxation year for which it applies for such eligibility certificate from SODEC, nor during the 24 months preceding such taxation year;

— is at arm’s length with a corporation which carries on its film or television production activities mainly within the Montréal region, during the taxation year for which it applies for such eligibility certificate from SODEC, and during the 24 months preceding such taxation year; and
— is not controlled, directly or indirectly, in any way whatsoever, at any time of the taxation year for which it applies for such eligibility certificate from SODEC, nor during the period of 24 months preceding such taxation year, by one or more individuals who are domiciled in the Montréal region or by one or more corporations which carry out their film or television production activities mainly within the Montréal region.

Eligible productions

The film or television productions eligible for this improvement are those otherwise eligible for the tax credit for film and television production and for which at least 75% of the amounts incurred for the filming of such productions are for services provided outside the Montréal region.

In addition, a co-production in which an eligible corporation participates will also be eligible for the improvement for regional productions, to the extent the eligible corporation carries out the co-production with:

— a corporation eligible for the tax credit for film and television production; or

— a corporation which is not eligible for the tax credit for film and television production, provided in this case that the co-production is carried out under a government agreement concluded by the Québec government, by the federal government, or by one of their departments or agencies.

The eligible corporation must participate actively in the development of the co-production. The share of the production expenses and labour expenditures it incurs must reflect the share of the copyright and of the royalties it holds in the co-production, as well as the importance of the responsibilities it assumes in the co-production at the artistic, technical and financial levels.

In addition, at least 75% of the amounts incurred by the eligible corporation for filming such a co-production must be for services provided outside the Montréal region.
Eligible labour expenditures

The labour expenditures eligible for this improvement will be labour expenditures otherwise eligible for the tax credit for film and television production incurred by the eligible corporation, that are directly attributable to services provided outside the Montréal region, in relation to a film or television production eligible for the improvement for regional productions.

In the case where the overall labour expenditures eligible for the tax credit for film and television production exceed the limit of 45% of production expenses, a special rule will stipulate that this limit is to be attributed on a priority basis to the labour expenditures eligible to the improvement for regional productions, which give rise to a higher tax credit rate.

The parameters of the tax assistance relating to labour expenditures eligible for the improvement for regional productions are given in the following table.

### TAX ASSISTANCE FOR REGIONAL FILM AND TELEVISION PRODUCTIONS

<table>
<thead>
<tr>
<th>Nominal rate (as a % of labour expenditures)</th>
<th>Ceiling on labour expenditures</th>
<th>Effective rate</th>
<th>Limit on the credit per production or per series</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic rate</td>
<td>Supplementary rate</td>
<td>Total (as a % of production costs)</td>
<td></td>
</tr>
<tr>
<td>French-language feature films</td>
<td>45</td>
<td>10.5</td>
<td>55.5</td>
</tr>
<tr>
<td>Specific documentaries</td>
<td>45</td>
<td>10.5</td>
<td>55.5</td>
</tr>
<tr>
<td>Other productions</td>
<td>33.33</td>
<td>22.17</td>
<td>55.5</td>
</tr>
</tbody>
</table>

¹ The effective rate of tax assistance for a film production cannot exceed 25%, even though a portion of labour expenditures is also eligible for the improvement for special effects and computer animation.
Montréal region

For the purposes of this improvement, the expression “Montréal region” means the territory consisting of the following administrative regions or portions of administrative regions:

— Montréal (06);
— Laval (13);
— Montérégie (16);
— Lanaudière (14), excluding the Matawinie and d’Autray RCMs;
— Laurentides (15), excluding the Laurentides and Antoine-Labelle RCMs.

Role of SODEC

To be entitled to additional assistance regarding a regional film or television production, the certificate issued by SODEC for the film or television production, which the eligible corporation must attach to the form it must file in order to claim the tax credit for film and television production, must state that the production is eligible for the regional improvement. In the case of a co-production, the certificate must indicate the share of production expenses and labour expenditures of the eligible corporation relating to the co-production.

The eligible corporation must also enclose with this form a certificate from SODEC stating that the corporation is eligible for the higher rate for regional productions, as well as a certificate designating the labour expenditures directly attributable to services provided outside the Montréal region.

Application date

These changes will apply to eligible labour expenditures incurred by an eligible corporation regarding an eligible production after the publication date of this Information Bulletin.
Change concerning the eligibility of a film or television production

To be recognized as a Québec film for the purposes of the refundable tax credit for film and television production, the Regulation respecting the recognition of a film as a Québec film stipulates that a production must satisfy criteria concerning, in particular, the type of production, the persons occupying various key positions and the percentage of total expenses incurred in Québec.

An additional condition will be added to these eligibility conditions so that sub-titling for the hearing-impaired will be mandatory for any production intended for broadcast in Québec, unless the producer demonstrates to SODEC that it is impossible for him to satisfy this condition for technical reasons.

In addition, the producer must give an undertaking, regarding any production, to sub-title it for the hearing-impaired before distributing it on the videocassette market in Québec, if applicable. Should he fail to do so, SODEC may revoke the eligibility certificate that was issued for such production.

This change will apply to film or television productions for which the major photography or recording work begins after December 31, 1999.

2.3.2 Refundable tax credits for sound recordings and for musical productions

The refundable tax credit for sound recordings and the tax credit for musical productions were introduced in the March 9, 1999 Budget Speech.
In general, the application details of those two tax credit are similar to those of the refundable tax credit for Québec film and television production. Accordingly, an eligible corporation may, under certain conditions, obtain a refundable tax credit equal to 33 1/3% of the labour expenditures it incurs for the purposes of producing an eligible sound recording or an eligible musical production. However, the expenditures which give rise to those two tax credit may not exceed 45% of the production expenses of the sound recording or of the musical production, as the case may be, so that the tax assistance may not exceed 15% of such expenses. In this regard, the eligible labour expenditures as well as the eligible production expenses must be reduced by the amount of any government or non-government assistance the corporation has received, is entitled to receive or may reasonably expect to receive in their regard. In addition, the tax credit for an eligible sound recording or for an eligible musical production may not exceed $50 000 or $300 000 respectively.

- Government assistance -

For the purposes of the refundable tax credit for sound recordings, it was stipulated that the amount of financial assistance provided by FACTOR MUSICACTION Canada, a private sector consortium consisting of FACTOR, Foundation to Assist Canadian Talent on Records, which provides financial assistance for the anglophone segment, and MUSICACTION, which provides financial assistance for the francophone segment of the industry, does not constitute government assistance.

A similar clarification was not made concerning the refundable tax credit for musical productions, although FACTOR and MUSICACTION provide financial assistance for this type of production.

Consequently, a change will be made, applicable as of March 9, 1999, so that financial assistance provided by FACTOR or by MUSICACTION does not constitute government assistance for the purposes of the refundable tax credit for musical productions.

- Percentage of songs or instrumental music that must be included in a musical production -

To be eligible to the refundable tax credit for musical productions, in particular, at least 75% of a show must consist of songs or instrumental music, based on timing. However, some artists interact with the audience between each song, which may result in such shows being disqualified.
To ensure that such shows remain eligible for this tax credit, this condition will be changed, applicable as of March 9, 1999, so that a concert, a song cycle, the interpretation of a dramatic work set to music, without or without spoken dialogue, will not be required to consist of at least 75% songs or instrumental music, but that songs or instrumental music must make up at least 75% of the content any other production, based on timing.

Change to the application date

It was announced in the March 9, 1999 Budget Speech, that the tax credit for the production of sound recordings and the tax credit for musical productions would apply to sound recordings and to musical productions for which production begins after March 9, 1999. To more adequately reflect the true situation of the Québec’s recording and performance industry, the tax legislation will be changed so that the tax credit for the production of sound recordings and the tax credit for musical productions will apply to labour expenses engaged after March 9, 1999, and otherwise eligible to those tax credits.

2.4 Tax benefits relating to international financial centres

Various measures were announced in the March 31, 1998 Budget Speech to encourage the development of the financial sector in Québec, in particular regarding international financial centres (IFCs). Some adjustments have already been made to these measures with the publication, on June 23, 1998, of Information Bulletin 98-3 of the ministère des Finances du Québec, and in the March 9, 1999 Budget Speech.

2.4.1 Enhancement to the concept of “strategic personnel” carrying out administrative support activities

Under existing rules, the employees of a corporation or of a partnership operating an IFC whose duties consist of administrative support activities may obtain, provided they are included among the “strategic personnel” of the business recognized as an IFC, for a calendar year, a partial income tax exemption for such year. This exemption may cover as much as one third of the remuneration they have received, for such year, from the corporation or partnership operating an IFC, as the case may be.
For this purpose, the expression “strategic personnel” has been defined as including the key personnel assigned to management and to the design of administrative support activities carried out by the corporation. However, a maximum number of employees that could make up the “strategic personnel” was set, depending on the size of the business recognized as an IFC.

The concept of “strategic personnel” will be broadened to include key personnel with specific knowledge of administrative support activities and assigned to canvassing for customers in relation to such activities.

In addition, the limit on the maximum number of employees that may make up the “strategic personnel” of a business recognized as an IFC will be withdrawn.

These changes will apply as of taxation year 1998, regarding employees of a corporation operating an IFC or employees of a partnership operating an IFC which has obtained, after March 31, 1998 or after June 23, 1998, respectively, a certificate from the Minister of Finance to the effect that it carries on a business or a part of a business recognized as an IFC.

Accordingly, in the case of employees whose employment contract was concluded before January 1, 1999 or who commenced work before such date, an application for an eligibility certificate will have to be submitted to the Minister of Finance for taxation year 1998. This application must be submitted no later than February 29, 2000.

2.4.2 Transition period regarding the extension to five years of the tax exemption for foreign specialists employed in an IFC

Briefly, an individual who is specialized in the field of eligible international transactions, and who, immediately before the conclusion of his employment contract or before commencing work as an employee of a corporation or partnership which operates an IFC, does not reside in Canada, may obtain a total exemption from income tax.

This exemption period was extended from four to five years in the March 9, 1999 Budget Speech.
A transition period of the same nature as that announced previously for foreign researchers will also be stipulated for the period of the total exemption from income tax for such foreign specialists. Accordingly, a foreign specialist employed by a corporation or a partnership which operates an IFC, for whom the four-year period of exemption from income tax was under way at any time during 1999, will obtain an extension of one year of this exemption period, provided the other conditions stipulated in the tax legislation are satisfied.

2.5 Extension of the period of application of the higher rates of the tax credit for design

A refundable tax credit for design consisting of two components was introduced in 1994 for certain expenditures relating to eligible design activities. The first component of this tax credit concerns industrial design or fashion design activities carried out as part of an outside consulting contract. The other component enables an eligible corporation to be entitled, according to certain rules, to the refundable tax credit for design with respect to salary expenditures incurred for designers it employs, in the fashion and furnishings sectors.

For an eligible corporation which concludes an outside consulting contract, the rate of the tax credit is 20% (up to 40% in the case of an SME) if the outside consulting contract is concluded before January 1, 2000 for an eligible design activity carried out before January 1, 2001. In the case of the tax credit on salary expenditures, the rate is also 20% (up to 40% in the case of an SME) if the eligible salary is incurred before January 1, 2000. These rates are then reduced to 10% (up to 20% in the case of an SME).

The rates temporarily set at 40% in the case of an SME, or 20% in the case of another corporation, will be extended for two additional years. Accordingly, they will continue to apply to outside consulting contracts concluded before January 1, 2002, for an eligible design activity carried out before January 1, 2003. In the case of the tax credit for salary expenditures, these rates will apply to eligible salaries incurred before January 1, 2002.

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8 A corporation qualifies as an SME for a taxation year if its assets shown on its books and financial statements for the preceding taxation year do not exceed $50 million.
2.6 Technical designation of the Montréal Foreign Trade Zone at Mirabel

The creation of the Montréal Foreign Trade Zone at Mirabel, located on the site of Mirabel airport, was announced in the March 9, 1999 Budget Speech.

In general, corporations which will carry on a business within this zone in the fields of international logistics, aircraft maintenance and repair, supplemental vocational training in, or light processing, and for which the Minister of Finance has issued an eligibility certificate, will obtain tax benefits in the form of an exemption from income tax, an exemption from the tax on capital, and an exemption from employer contributions to the Health Services Fund.

These corporations may also obtain refundable tax credits in relation to the wages paid to the eligible employees as well as for the fees incurred in relation to an eligible customs brokerage contract. They may also obtain a refundable tax credit for the acquisition expenses or fees paid to lease eligible equipment.

It was indicated in the March 9, 1999 Budget Speech that the technical designation of the Montréal Foreign Trade Zone at Mirabel would be made public in the near future. This technical designation is given in the appendix.

2.7 Obligation to maintain records and books of account in Québec

Currently, the Act respecting the ministère du Revenu does not stipulate that the records and books of account of a taxpayer must be maintained in Québec. However, in fact, the taxpayers concerned generally apply to the ministère du Revenu if they wish to maintain their records and books of account outside Québec.

In order to specify the obligations of taxpayers in this regard, the Act respecting the ministère du Revenu will be amended so that anyone who carries on a business, is required to pay taxes or is required to deduct, withhold or collect an amount under a tax law, is required to maintain records and books of account at his establishment or residence in Québec, or at any other place the Minister of Revenue designates, according to the terms and conditions he specifies.
In this regard, the ministère du Revenu will publish an instruction describing the terms and conditions for authorizing a taxpayer to maintain his records and books of account outside Québec.

In general, a taxpayer will be authorized by the Minister of Revenue to maintain his records and books of account outside Québec if he undertakes:

— either to make his records and books of account available to the ministère du Revenu when the latter asks for them and, if the records and books of account are inaccurate or incomplete, the taxpayer undertakes to cover the living and transportation expenses of employees of the ministère du Revenu who must travel outside Québec to carry out an audit on-site;

— or to cover the living and transportation expenses of employees of the ministère du Revenu who must travel outside Québec to carry out an audit on-site.

Accordingly, the taxpayer will reimburse the ministère du Revenu for the living and transportation expenses of its employees who travel outside Québec to carry out an audit.

In addition, the authorization to maintain records and books of account outside Québec will be granted without conditions, if the distance between the place where they are maintained and the office of the ministère du Revenu responsible for the audit requires less than one day’s travel by road, or when the annual sales of the taxpayer in Québec are minimal. In such cases, the travel expenses will be covered by the ministère du Revenu.

This change will apply as of the day the bill implementing it is assented to.

2.8 Clarification concerning the eligibility of an expenditure for a tax credit

In general, when an expenditure, for instance a salary expenditure, entitles a taxpayer to one of the various refundable tax credits stipulated in Québec’s tax legislation, it cannot give rise to another refundable tax credit. In addition, for the purposes of the tax credit for job creation in the clothing and footwear industry, which is based on an increase in payroll attributable to the eligible employees of a taxpayer, the amount of salaries paid must be reduced by any salary expenditure included in the calculation of an expenditure regarding which he is granted another refundable tax credit.
A clarification will be made to the tax legislation to ensure that similar rules are applicable regarding an expenditure for which an R&D super-deduction is granted.

This clarification will apply to the taxation years of corporations beginning after June 30, 1999.
3. CONSUMPTION TAXES

3.1 Québec sales tax

3.1.1 Rebate of the tax paid by an exporter for an automotive vehicle purchased by his mandatary

In order to curb tax avoidance in the sector of automotive vehicle sales, changes to the Québec sales tax (QST) were announced in the March 9, 1999 Budget Speech in particular concerning the sale of such vehicles other than retail sales. These changes, which have been in effect since May 1, 1999, stipulate the zero-rating of an automotive vehicle purchased solely for the purpose of being re-sold or leased for at least one year, and the impossibility for the purchaser of such vehicle to obtain from the tax authorities a rebate of the QST that may have been paid regarding it, despite the fact that it is zero-rated.

Stringent application of these changes could have a negative impact on the activities of automotive vehicle exporters, in view of their commercial practices. In order not to hamper the activities of this industry while maintaining a sound tax system, an exporter who has paid the QST regarding a zero-rated automotive vehicle will exceptionally be allowed to obtain a rebate of such tax from the tax authorities in very specific circumstances.

Accordingly, an exporter may obtain such a rebate if the QST he paid relates to a new automotive vehicle which he purchased from an automotive vehicle dealer whose establishment is located in Québec, through a non-registered mandatary who was required to register it. In addition, the exporter must have had the vehicle’s registration cancelled, because of its export outside Canada, within fifteen days of its delivery by the dealer to the mandatary, and he must have exported it outside Canada within a reasonable time after such delivery.

To be entitled to this rebate, the exporter must apply for it from the ministère du Revenu du Québec (MRQ), using the prescribed form accompanied by the prescribed supporting documents, and must satisfy the conditions and terms set by the MRQ. The application must be filed during the twelve months following the day the exporter paid the QST for which he wishes to obtain a rebate and only one application per month may be filed.
This measure will apply regarding QST that will become payable after the publication date of this Information Bulletin and that was not paid by that date at the latest in relation to the purchase of an automotive vehicle.

3.1.2 Replacement of the reference books published by Hebdo Mag Inc.

To limit tax avoidance with respect to transactions relating to used road vehicles, rules have been established under the QST system to determine the market value of such vehicles for the purpose of calculating the tax payable on their sale. In general, the amount of QST payable is based on the sale price agreed upon by the parties to the transaction or the average wholesale price given in certain reference books, less $500, whichever is higher.

The reference books currently used to determine the market value of used motor vehicles are the Guide d'Évaluation des Automobiles and the Guide d'Évaluation des Camions Légers published by Hebdo Mag Inc. Considering that these two evaluation guides will cease to be published as of August 1999, the Québec government intends to proceed to a request for proposals in order to find a new reference book containing satisfactory data for the purpose of calculating the QST payable in regard to the sale of used motor vehicles.

Until the request for proposals procedure is completed, the reference book to use for the determination of the market value of used motor vehicles will be the Guide d'Évaluation Hebdo (Automobiles et Camions Légers) published by Hebdo Mag Inc., which will combine the information contained in the two current reference books.

This temporary measure will apply as of August 1, 1999.
3.2 Fuel tax

3.2.1 Refund of the tax paid regarding fuel used to supply a propulsion engine for purposes other than propulsion

Under the fuel tax system, gasoline and fuel oil used to supply a propulsion engine are generally taxable, but are not subject to this tax when they are used to supply a stationary engine. Accordingly, gasoline used to supply a stationary engine is eligible for a refund of the tax, while fuel oil used for this purpose is covered by an exemption which is conditional on its colouring.

Technological advances have resulted in motor vehicles equipped with a single motor used to propel them, as well as to activate, by means of a power take-off, auxiliary equipment not used for their propulsion. The power take-off plays the part of a stationary engine since it enables the auxiliary equipment to operate by supplying it with a portion of the power of the propulsion engine.

To reflect this situation, the fuel tax system will be changed to allow the refund of the tax paid regarding gasoline or non-coloured fuel oil used to supply the propulsion engine of a motor vehicle, but only on the portion of such fuel required to activate a vehicle’s auxiliary equipment by means of a power take-off, provided such equipment is not used to propel the vehicle and is used for commercial or public purposes.

To be entitled to this refund, the purchaser of the fuel must apply for it from the MRQ, using the prescribed form accompanied by the prescribed supporting documents, and must satisfy the prescribed terms and conditions. An application must cover purchases of fuel made over a period of at least three months, unless they total 3 000 litres or more of fuel eligible for refund, and no more than twelve months. In addition, the application must be filed no more than 15 months following the day of the first purchase covered.

This measure will apply regarding purchases of gasoline or non-coloured fuel oil made after the publication date of this Information Bulletin.
3.2.2 Issuing of a fuel oil colouring permit for every establishment carrying out such activity

The fuel tax system requires that fuel oil used for exempt purposes be coloured to differentiate it from non-coloured fuel oil generally used for taxable purposes. To be able to colour fuel oil in Québec, a person must, under this system, hold a permit issued for such purpose. In addition, such person must satisfy a number of obligations stipulated in this regard, non-compliance with which may result in the suspension or revocation of the permit.

Currently, when the same person colours fuel oil in many establishments, a single permit is issued to that person for such purpose. As a result of this, if such person fails to satisfy the obligations stipulated by the fuel tax system in only one of these establishments, the ensuing suspension or revocation of his permit prevents him from colouring fuel oil in all the establishments.

To add some flexibility to the fuel tax system in this regard, a change will be made so that a fuel oil colouring permit will be required for each establishment of a person where such colouring is carried out, so that it will be possible to suspend or revoke only the permit of the person in relation to the establishment where he failed to satisfy his obligations.

This measure will apply as of the date after the publication date of this Information Bulletin.

3.3 Introduction of a specific duty on new tires for road vehicles

To fund the Québec Program for the Integrated Management of Scrap Tires, whose administration has been entrusted to the Société québécoise de récupération et de recyclage (RECYC-QUÉBEC), a specific duty on new tires for road vehicles will apply as of October 1, 1999.

More specifically, a specific duty of $3 will apply regarding any new tire of a road vehicle which a person acquires by retail sale in Québec, or brings into Québec for purposes other than resale or installation on a road vehicle intended for sale or long-term lease. It will also apply regarding any new tire provided as equipment on a road vehicle which a person acquires in Québec by retail sale or long-term lease.
This duty, which will be included in the goods and services tax and QST tax base, will be payable by the acquirer of the new tire at the time of its retail sale or the time it is brought into Québec, or by the acquirer of the road vehicle equipped with new tires, at the time of the retail sale of the vehicle or of the signature of the long-term lease contract for the vehicle.

Retail sale of a new tire for a road vehicle or of a road vehicle equipped with new tires

The application of this new specific duty will be limited to new tires for which the diameter of the rim is less than or equal to 24.5 inches (61.25 centimetres) and the overall diameter does not exceed 48.5 inches (121.25 centimetres). More specifically, the new tire of a road vehicle’s emergency spare wheel will also be subject to this duty.

For the purposes of this duty, the expression “road vehicle” will have the same meaning as given by the *Highway Safety Code* and the word “sale” will have the same meaning as given under the QST system, excluding donation. The expression “long-term lease” will mean a lease for at least twelve months. Lastly, the expression “retail sale” will mean, in the case of a new tire, a sale made for purposes other than resale or installation on a road vehicle intended for sale or long-term lease and, in the case of a road vehicle equipped with such tires, a sale made for purposes other than resale or long-term lease.

Registration, collection and payment

A person who is required to be registered for the purposes of the QST who sells a new tire at the retail level or who supplies a road vehicle equipped with such tires through a retail sale or long-term lease must, as a government mandatary, collect the specific duty payable by the acquirer. In this context, a small supplier of new tires or road vehicles will henceforth be required to register in this regard.

In addition, to simplify the administration of this new specific duty, a pre-collection system will be implemented. Accordingly, in general, a registrant for the purposes of the QST who sells a new tire or a road vehicle equipped with new tires other than by retail sale must, as a government mandatary, collect the specific duty in advance from the person to whom he makes such a sale. The MRQ, which will be responsible for administering the specific duty, will set the terms of the pre-collection system.
Mandataries will have to pay the amounts of duty collected or pre-collected to the MRQ, which will remit the revenue it generates to RECYC-QUÉBEC. Mandataries will have to report to the MRQ the amounts of duty collected or pre-collected at the same reporting frequency as for their QST returns, using the form prescribed for this purpose. However, mandataries who file annually may be required to pay instalments at conditions set by the MRQ.

**Self-assessment**

In the case where the specific duty payable by the acquirer of a new tire or of a road vehicle equipped with new tires is not collected or does not have to be collected by a government mandatary, the acquirer must himself report the duty and remit it to the MRQ, using the form prescribed for this purpose. In the case of a new tire which an acquirer brings into Québec for purposes other than resale or installation on a road vehicle intended for sale or long-term lease, the duty to be remitted by the acquirer may be reduced by an amount equal to that of a similar duty that may have been imposed on him by another jurisdiction, if he has not obtained or is not entitled to obtain a refund of such duty by such jurisdiction.

**Change in use**

Rules respecting change in use will be stipulated to guarantee payment of the specific duty regarding a new tire acquired for purposes of sale or installation on a road vehicle intended for sale or long-term lease, which begins to be used for another purpose by the acquirer himself or by another person at the expense of the latter. Such rules will also be stipulated to ensure payment of this duty regarding new tires provided as equipment on a road vehicle acquired for purposes of resale or long-term lease, when the acquirer, or another person at the expense of the latter, begins to use the vehicle for another purpose.

**Application date and taking of inventory**

The new specific duty will apply regarding any new tire acquired by retail sale made in Québec after September 30, 1999, or which is brought into Québec after that date for purposes other than resale or installation on a road vehicle intended for sale or long-term lease. It will also apply regarding any new tire provided as equipment on a road vehicle acquired in Québec by retail sale or by long-term lease made after September 30, 1999.
In addition, for the purposes of the implementation of the pre-collection system of the specific duty starting October 1, 1999, retail sellers of new tires who have such goods in stock on midnight, September 30, 1999, will have to take an inventory of them and remit in advance the applicable duty to the MRQ no later than November 1, 1999, using the form prescribed for this purpose. This will also apply to suppliers of road vehicles equipped with new tires intended for retail sale or long-term lease, who have such vehicles in stock on midnight, September 30, 1999. More specifically, the new tires and road vehicles equipped with new tires which these persons acquire before midnight, September 30, 1999 but have not yet been delivered to them will be included in their stock.
4. FEDERAL LEGISLATION AND REGULATIONS

4.1 Notice of Ways and Means Motion of December 8, 1997

On December 8, 1997, the Minister of Finance of Canada tabled a Notice of Ways and Means Motion in the House of Commons dealing with measures concerning income tax announced in his February 1997 budget as well as other measures, many of which were included in a bill tabled in 1997. This bill consisted mainly of technical changes concerning the income tax.

It was announced in the March 31, 1998 Budget Speech that Québec’s tax legislation would be amended to incorporate most of these measures, in particular those relating:

— to the responsibility of a taxpayer’s representatives (185)\(^9\);
— to amounts held in trust (226(1));
— to certain offences and penalties (235(2), (3) and (4)).

Further analysis is required before deciding whether or not to incorporate into Québec’s tax legislation the measures relating to the responsibility of a taxpayer’s representatives. In this context, the incorporation of these measures into Québec’s tax legislation is suspended until this analysis is completed.

In addition, contrary to what was initially announced, the measures relating to amounts held in trust and to certain offences and penalties will not be incorporated into Québec’s tax legislation.

\(^9\) The references in parentheses refer to the section number of the Notice of Ways and Means Motion published on December 8, 1997.
4.2 February 24, 1998 federal Budget Speech

On February 24, 1998, the Minister of Finance of Canada tabled a Notice of Ways and Means Motion in the House of Commons seeking to amend the Income Tax Act concerning, in particular, the foreign tax credit (RB 38).\(^\text{10}\)

It was announced in the March 31, 1998 Budget Speech that Québec’s tax legislation would be amended to incorporate the federal measures in this regard, but only with respect to the portion of the changes concerning income other than business income.

Québec’s tax legislation will be changed to also incorporate the portion of these changes which concerns the business income of an individual.

However, these measures will only be adopted after the approval of any federal law arising from this notice of motion, taking into account the technical amendments that could be made prior to this approval, and will become applicable on the same dates as for federal income tax purposes.

4.3 Federal news releases

- Reporting process for contractual payments in the construction industry

On December 15, 1998, the Minister of Revenue of Canada released the application details of the reporting process for contractual payments in the construction industry, for application as of January 1, 1999.

This process had been proposed in the February 24, 1998, federal Budget Speech,\(^\text{11}\) but the decision as to whether or not to incorporate this measure into Québec’s tax regulation had not yet been announced.

This measure will not be adopted because Québec’s tax system is satisfactory in this regard.

\(^{10}\) The number in parentheses refers to the number of the budget resolution of the Notice of Ways and Means Motion tabled on February 24, 1998.

\(^{11}\) Schedule 7, fiscal measures: Additional Information and Notice of Ways and Means Motion tabled February 24, 1998, pages 199 and 200.
On December 23, 1998\textsuperscript{12}, the Minister of Finance of Canada released documents giving detailed implementation proposals for the measures announced in an October 1996 Notice of Ways and Means Motion concerning the migration of taxpayers and distributions made by trusts resident in Canada to non-resident beneficiaries. These detailed proposals change certain aspects of the application of income tax to trusts. Certain items are additions to the October notice of motion, in particular regarding:

\begin{itemize}
  \item exceptions concerning deemed disposition of property at the time of emigration;
  \item the exception concerning the obligation to provide a guarantee on the first $25\,000 of federal tax;
  \item the temporary and restricted credit for foreign tax payable in some cases;
  \item the carry-back of a loss against a gain resulting from a deemed disposition at departure;
  \item short-term non-residents;
  \item changes to the deduction of foreign exploration and development expenses;
  \item the new rules proposed for trusts and their beneficiaries.
\end{itemize}

While the ministère des Finances has already stated its position\textsuperscript{13} on the measures contained in the October 1996 notice of motion, it is appropriate to mention that, in general, Québec’s tax legislation and regulations will be amended to incorporate, with adaptations based on their general principles, the measures proposed in these documents. However, they will not be adopted until after any federal statute arising from these documents is assented to, taking into account the technical changes that may be made to them prior to such assent, and will be applicable on the same dates as for federal income tax purposes.

\textsuperscript{12} Department of Finance Canada, News release 98-134.

\textsuperscript{13} Ministère des Finances du Québec Information Bulletin 96-5, November 22, 1996, page 10.
Federal news releases concerning foreign banks

On February 11, 1999, the Secretary of State for International Financial Institutions, acting on behalf of the Minister of Finance of Canada, released, by means of a news release\(^{14}\) a draft bill to amend the ITA, following the tabling of a bill that will enable foreign banks to open specialized commercial branches in Canada.

The proposed tax rules are designed to ensure that Canadian branches of foreign banks, Canadian subsidiaries of foreign banks and Canadian banks are subject to similar tax systems.

It was announced in the March 9, 1999 Budget Speech that Québec’s tax legislation would be harmonized with all these changes, with the exception of the measure regarding the foreign tax credit, for which an announcement would be made at a later date.

On May 11, 1999, the federal Secretary of State for International Financial Institutions announced, by means of a news release\(^{15}\), proposals to amend the ITA to authorize special transitional tax rules for foreign banks wishing to open branches in Canada specializing in commercial activities.

Québec’s tax legislation will be changed to incorporate, with adaptations based on its general principles, the federal measure relating to the foreign tax credit as well as most of the federal measures authorizing special transitional tax rules. However, these concordance measures will not be adopted until after any federal statute arising from these documents is assented to, taking into account the technical changes that may be made to them prior to such assent, and will be applicable on the same dates as for federal income tax purposes.

More specifically, the rules designed to prevent avoidance of provincial tax in cases where different elections are possible under the federal and Québec tax legislation will apply regarding the elections stipulated by the special transitional tax rules.

\(^{14}\) Department of Finance Canada, News release 99-015.

\(^{15}\) Department of Finance Canada, News release 99-044.
However, some of these provisions have not been retained since they do not correspond to the features of Québec’s tax system or because the latter does not contain corresponding provisions. The measures in question concern:

— the tax withholdings stipulated in part XIII of the ITA;
— the branch tax stipulated in part XIV of the ITA.

Department of Finance Canada news release of March 10, 1999

By means of a news release\textsuperscript{16}, Department of Finance Canada issued legislative measures designed to implement a change concerning the ability of the federal Minister of Revenue to advance alternative arguments, after the normal reassessment period has expired, in support of an otherwise timely assessment.

Québec’s tax legislation will be changed to incorporate, with adaptations based on its general principles, these legislative measures. However, these concordance measures will not be adopted until after any federal statute arising from these documents is assented to, taking into account the technical changes that may be made to them prior to such assent, and will be applicable on the same dates as for federal income tax purposes.

News release concerning the rules applicable to insurers and their segregated funds

On March 16, 1999, the Secretary of State (Latin America and Africa), acting on behalf of the Minister of Finance of Canada, issued, by means of a news release\textsuperscript{17}, a notice of ways and means motion proposing amendments to the \textit{Excise Tax Act}. The purpose of these changes is to clarify the application of the goods and services tax (GST) and the harmonized sales tax regarding insurers and their segregated funds.

In accordance with the principle of substantial harmonization of the Québec sales tax and the GST systems, Québec's tax system will be generally harmonized with the federal tax system in this regard, subject to specific Québec’s particularities and taking the provincial context into account.

\textsuperscript{16} Department of Finance Canada, news release 99-025.
\textsuperscript{17} Department of Finance Canada, news release 99-028.
These harmonization measures will only be adopted after any federal legislation arising from this notice of ways and means motion is assented to, taking into account any technical changes that may be made before assent is given. They will apply on the same dates as those stipulated in the federal tax system.

Department of Finance Canada news release of April 15, 1999

On April 15, 1999, the Minister of Finance of Canada announced, in a news release\(^\text{18}\), proposed amendments to the provisions of the ITA regarding “rollovers” and “replacement property” concerning the disposition of shares of a foreign corporation.

Under the announced changes, the existing rollover provisions of sections 85.1 and 87 of the ITA would be extended to taxpayers who dispose of shares of a foreign corporation in consideration of shares in another foreign corporation as part of an exchange of shares or the merger of foreign corporations. These changes would apply to share exchanges made after 1997. They would also apply to share exchanges made after 1995 and before 1998 if the taxpayer makes the stipulated election by notifying the Minister of National Revenue in writing.

In addition, amendments are proposed to the rules on replacement property stipulated in section 44 of the ITA to exclude, as of April 16, 1999, the disposition of shares of a corporation.

Québec’s tax legislation will be changed to incorporate, with adaptations based on its general principles, the federal measures proposed in this regard.

More specifically, the rules designed to prevent avoidance of provincial tax in cases where different elections are possible under the federal and Québec tax legislation will apply regarding the elections indicated above.

These concordance measures will not be adopted until after any federal statute arising from this communiqué is assented to, taking into account the technical changes that may be made to them prior to such assent, and will be applicable on the same dates as for federal income tax purposes.

\(^{18}\) Department of Finance Canada, news release 99-035.
Department of Finance Canada news release of June 2, 1999

On June 11, 1998, the Minister of Finance of Canada announced, by means of a news release\(^{19}\), that tax relief would be provided for small and medium-size enterprises to enable them resolve the problem concerning Y2K compliance of computer systems.

The Minister of Finance of Québec announced, in Information Bulletin 98-3 released on June 23, 1998, that Québec’s tax legislation and regulations would be amended to incorporate the measures announced by the Minister of Finance of Canada regarding this tax relief.

On June 2, 1999, the Minister of Finance of Canada announced, by means of a news release\(^{20}\), that the deadline for the acquisition of eligible computer hardware would be extended from June 30, 1999 to October 31, 1999.

Québec’s tax legislation and regulations will be amended to incorporate the change announced on June 2, 1999 by the Minister of Finance of Canada. However, this change will not be adopted until any federal statute or any federal regulations arising from it have been assented to.

Department of Finance Canada news release of June 3, 1999

On June 3, 1999, the Minister of Finance of Canada announced, by means of a news release\(^{21}\), that technical changes would be made to the income tax rules applying to donations of a servitude, covenant or easement in respect of ecologically sensitive land. These changes specify how capital gains or losses realized upon the donation of such servitude, covenant or easement must be calculated.

Québec’s tax legislation will be amended to incorporate, with adaptations based on its general principles, the measures announced by the Minister of Finance of Canada. However, these measures will not be adopted until any federal statute arising from them is assented to, taking into account the technical changes that may be made to them before such assent, and will be applicable to gifts made after May 12, 1994.

\(^{19}\) Department of Finance Canada news release 98-057.
\(^{20}\) Department of Finance Canada news release 99-047.
\(^{21}\) Department of Finance Canada news release 99-049.
Department of Finance Canada news release of June 16, 1999

It was announced in the March 31, 1998 Budget Speech that Québec’s tax legislation would be amended to incorporate, with adaptations based on its general principles, the federal measure introducing a deduction of up to $1,000 for emergency services volunteers, which had been announced in the February 24, 1998 federal Budget Speech.

This federal measure was subsequently changed and on November 6, 1998, it was announced that the harmonization principle would be maintained.

On June 16, 1999, the Department of Finance of Canada issued a news release announcing that new changes concerning the remuneration of emergency services volunteers would be proposed to convert the deduction of up to $1,000, which had initially been proposed, into an exclusion from the calculation of income of a corresponding amount of remuneration. These changes are intended to reduce the administrative burden of municipalities and other public administrations which call on such volunteers to act in emergency situations.

Québec’s tax legislation will be amended to incorporate, with adaptations based on its general principles, the measure proposed in this regard by the federal government. However, this measure will not be adopted until any federal statute arising from it is assented to, taking into account the technical changes that may be made to it before such assent, and will be applicable as of taxation year 1999.

More specifically, the remuneration paid to emergency services volunteers may, for taxation year 1998, be reduced by a deduction of up to $1,000 under the same conditions which, as of taxation year 1999, will give rise to an exclusion from the calculation of income.

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23 Department of Finance Canada news release 99-055.
Starting from A, being the northwestern corner of lot 1032 of the Cadastre of the Cité de Québec (Jacques-Cartier district), to B, being the northwestern corner of lot 1481 of the afore-mentioned cadastre. This line being the northwestern side of lots 1032, 1033, 1034, 1035, 1036, 1037-1, 1037, crossing the rue des Archives, the northwestern side of lot 1038 of the afore-mentioned cadastre, crossing the rue de la Couronne, the northwestern side of lots 4641, 1469, 1470, 1471 of the afore-mentioned cadastre, crossing the rue de l'Église, the northwestern side of lots 1472, 1473, 5272, 5275 of the afore-mentioned cadastre, crossing the rue de la Chapelle to point B. From there to point C, being the northwestern corner of lot 968 of the cadastre of the Cité de Québec (Saint-Roch district), crossing from point B the rue Saint-Joseph (the centre of this street being the line of division of the two cadastres (Jacques-Cartier and Saint-Roch districts)) along the southwestern side of lots 972, 971, 968 of the cadastre of the Cité de Québec (Saint-Roch district), to point C; from there to point D, being the intersection of the extension of southeastern right-of-way of the rue Saint-François with lot 1 213 704 of the cadastre of Québec, such line being the northwestern side of lots 968, 967-1, 966 to 962 of the Cadastre of the Cité de Québec (Saint-Roch district), crossing the rue du Pont, the northwestern line of lots 961, 960-B-1, 960-B, 960-A-2, 960-A-1, 959 to 956, 955-2-B, 955-2-A, 955-1, 954 of the afore-mentioned cadastre, crossing the rue Monseigneur-Gauvreau, the northwestern side of lots 953, 952, 951, 950, 949-2, 949 of the afore-mentioned cadastre to point D. From there following points E, F, G, H, I, J, K, these being respectively the southwestern, northwestern, northern, northeastern, eastern, southeastern, and southern sides of lot 1 213 704 of the cadastre of Québec, from point K to point L, this line being the northeastern side of lot 1513 of the cadastre of the Cité de Québec (Jacques-Cartier district), from this point, all the lots mentioned below are part of the Cadastre of the Cité de Québec (Jacques-Cartier district), from there to point M, being the eastern corner of lot 1519, this line being the southeastern side of lots 1513 to 1518 crossing the rue Saint-Dominique to point M. From there to point N, being the northern corner of lot 1609-1, crossing the boulevard Charest Est. From there to point O, being the northern corner of lot 1604, this line being the northwestern side of lots 1609-1, 1608 to 1605 crossing the rue Monseigneur-Gauvreau to point O. From there towards point P, being the southeastern corner of lot 1623, this line being formed by the northeastern sides of lots 1604 and 1623.
From there towards point Q, being the intersection of the extension of the northwestern right-of-way of the rue Sainte-Marguerite (lot 4981) with lot 5045, such line being the southeastern side of lots 1623, 1624-2, 1624-1, 1625, 1626, 1627, 1628, 1629, 1630, 1596-1, 4491, 1631-1 crossing the rue du Pont, the southeastern side of lots 1633 to 1637 crossing lot 5279 to point Q. From there towards points R, S and T, being successively the northeastern, southeastern and southwestern sides of lot 5045. From point T to points U and V, being successively the southeastern and southwestern sides of lot 1582. From there to point W, being the eastern corner of lot 1098, such line being the northwestern sides of lots 1581, 1580 to 1574, 4785, 1573 to 1566 and crossing the rue de la Couronne to point W. From there to point X, being the eastern corner of lot 5274, such line crossing the boulevard Charest Est and is composed of the northeastern sides of lots 1170, 1171, 4891, crossing the rue Sainte-Hélène, the northeastern sides of lots 1225, 1226 crossing the rue Fleurie and the northeastern side of lot 5274 to point X. From there to point Y, being the southern corner of lot 1240, such line being the southeastern side of lots 5274, 1237, 1238, 1239, 1240 to point Y. From there to the starting point A, such line being the southwestern side of lot 1240, crossing the rue Fleurie, the southwestern side of lot 1231-A, 1218-A, crossing the rue Sainte-Hélène, the southwestern side of lots 1182, 1162, crossing the boulevard Charest Est, the southwestern side of lots 1109, 1088-A, 1088, crossing the rue Notre-Dame-des-Anges, the southwestern sides of lots 1039 and 1032 to the starting point A.
APPENDIX 2

The Montréal Foreign Trade zone at Mirabel consists of the following lots of the official cadastre of Mirabel:

<table>
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<tr>
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<th>Lot 2</th>
<th>Lot 3</th>
<th>Lot 4</th>
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