mcmillan

# bulletin

March 2009

## Budget 2009: opportunities to generate capital for Quebec businesses

The financial crisis has affected many Quebec businesses, reducing available investment capital. This bulletin focuses on a series of measures contained in the recent Quebec Budget designed to facilitate access to capital for businesses in Quebec, including:

- a “new and improved” stock savings plan;
- the emergency and FIER-Régions funds; and
- new initiatives targeting businesses in the energy and technology sectors

### stock savings plan II

In the Budget, Quebec announced the creation of a new stock savings plan, the SSP II. Under this plan, individuals who invest in certain medium-sized Quebec public companies will be granted a tax deduction equal to 150% of their investment for eligible shares acquired between March 19, 2009, and December 31, 2010, and 100% thereafter. This revamped measure does away with many of the administrative constraints that plagued its predecessor, the SME Growth Stock Plan. For instance, the procedure to render shares and other securities eligible for the plan will be simplified. Also, the minimum holding period for eligible securities will be shortened to two years, and the maximum size of eligible corporations is raised from $100 million in assets under the SME Growth Stock Plan to $200 million. The SSP II will be in effect until December 31, 2014.

We expect the new stock savings plan to facilitate access to capital for mediumsized Quebec public companies through increased public offerings, private placements and rights offerings.

### emergency fund and FIER-régions funds

The Budget provides for the creation of a two-year, $500-million emergency fund in partnership with the *Fonds de Solidarité FTQ* and the *Société générale de financement du Québec*. The emergency fund will support medium and large public and private enterprises that are affected by the current economic situation and have pressing needs for cash resources. With the value of individual investments ranging from $15 to $75 million, this fund will invest in businesses in all sectors of activity.

The Budget also contemplates more specifically-targeted funds, including the FIER-Régions funds, totalling $60 million, to allow business projects in outlying regions of Quebec to gain access to financing.

## focus on energy

The Budget provides a five-year royalty holiday of up to $800,000 for each natural gas well put into production by the end of 2010. Currently, natural gas development companies must pay royalties equal to between 10% and 12.5% of the value of each well. Beginning in 2011, the royalty system will undergo an overhaul, resulting in a royalty rate that will more closely be a function of productivity. The royalty holiday is expected to promote exploration and foster the development of the gas industry in Quebec.

The Budget also allocates $4 million over two years to enhance knowledge of Quebec's hydrocarbon resources, particularly in the Gaspésie and Bas-Saint-Laurent regions, in order to generate interest in exploration and ensure optimum development of the existing potential.

An additional $500 million has been earmarked for a capital expenditure program related to the installation of bioenergy production equipment for purposes such as enabling municipalities to convert household waste into energy by installing biogas-producing anaerobic digesters.

## support for the technology sector

The Budget also aims to improve Quebec's record with respect to the creation of companies spun off from research and development activities in the higher education sector. Specifically, the Budget provides a 10-year corporate income tax holiday to support new enterprises in commercializing intellectual property developed by a university or an eligible public research centre in Quebec. Such Quebec corporations formed between March 19, 2009 and April 1, 2014 will be exempted from corporate income tax on the sale of goods derived from intellectual property for the first 10 years following their incorporation. To be eligible, these businesses must derive at least 90% of their income from commercialization activities relating to manufacturing or marketing of the products that are developed.

The Budget also seeks to facilitate access to capital for technology companies by introducing various government-sponsored funds. Three seed funds, totalling $125 million, will be established to finance new businesses in the information and communications technology and life sciences sectors, as well as other technologies. These seed funds will be run by independent managers from the private sector, to be named following a tender process.

Finally, the Finance Minister announced the creation of a new $825-million-fund to finance approximately 20 venture capital funds, in partnership with the *Caisse de dépôt et placement* *du Québec and the Fonds de solidarité FTQ*. This new fund will support technology firms in the startup or expansion phase. As most sector-based private venture capital funds in Quebec have already almost completely committed their financing, this new fund should provide a much-needed renewed boost to the technology sector's development.

At McMillan LLP, we pride ourselves on our commitment to client service. Our skilled and knowledgeable team is available to guide you through the process of translating these recent government policies into practical and valuable business solutions.

Additional information can be found online in the 2009-2010 Budget Publications at http://www.budget.finances.gouv.qc.ca/budget/2009-2010/en/documents/index.asp.

For more information, contact Andrew Etcovitch (514.987.5064 I andrew.etcovitch@mcmillan.ca) in Montreal or any other member of McMillan's Tax Group.

## a cautionary note