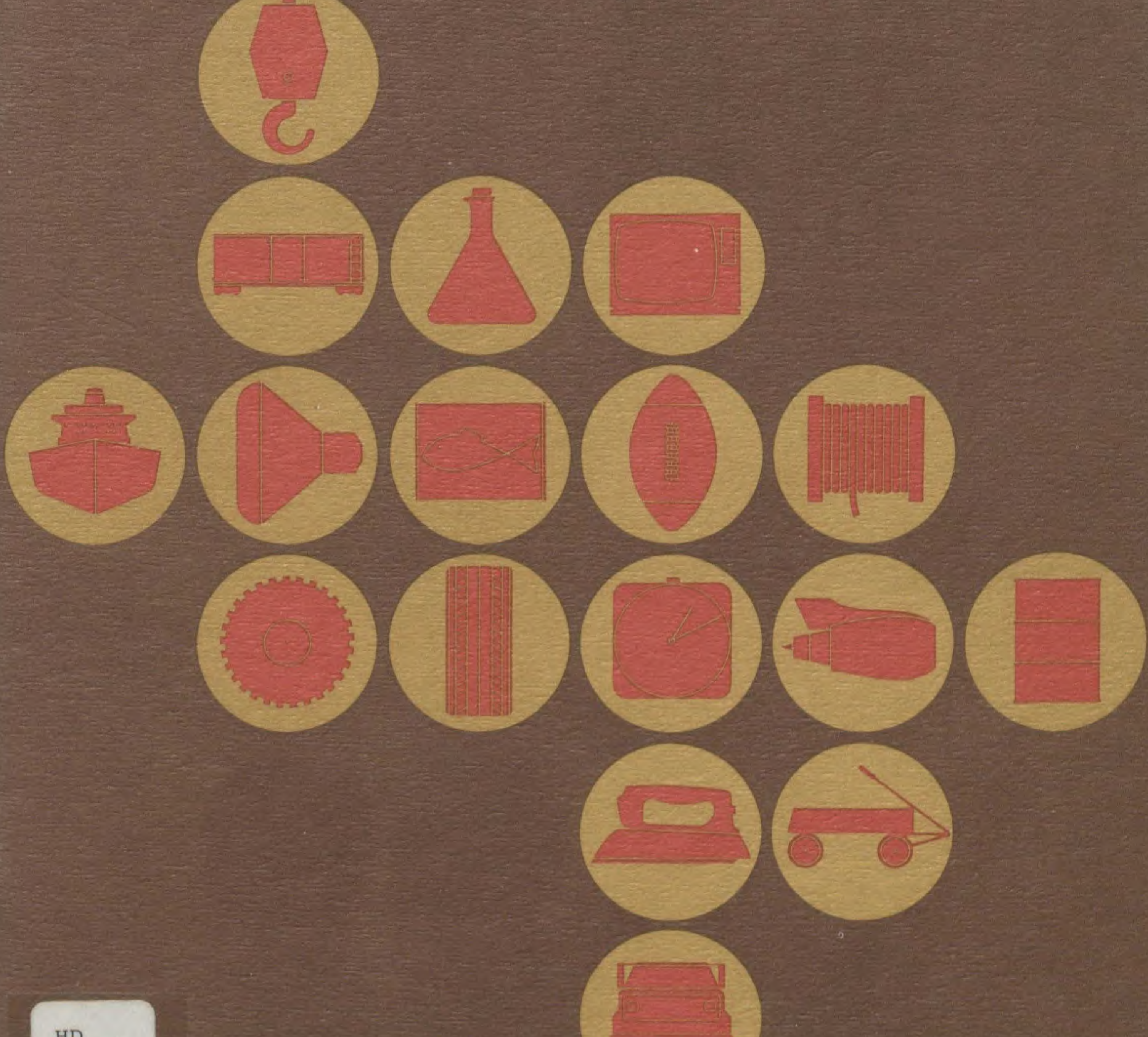
MONTRÉAL
Special Area



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Government
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Regional
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Expansion

Questions and Answers

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Introduction

At the end of 1976 and in the early part of 1977, Québec's economic growth was at a near standstill. Throughout the province and more noticeably in the Montréal region, investments were scarce and unemployment high.

These problems, combined with a structural weakness in Québec's secondary sector, were hampering the development of the manufacturing industry. Consequently, the Department of Regional Economic Expansion decided to act selectively and declared the Montréal region, with its satellite cities, a Special Area under the Regional Development Incentives program.

This publication is intended for businessmen and businesswomen who may wish to take advantage of the new program and should answer most questions on its application.

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Expansion Économique Régionale | Regional Economic Expansion
Québec Region

1. Designation

Special Areas Order

The development incentives program in the Montréal Special Area is governed by the Special Areas Order P.C. 1977-2444, August 31, 1977. The terms and conditions of a development incentive are subject to an agreement entered into between an applicant and the Minister.

How long will the designation last?

The Montréal region has been designated a Special Area for a period of three years from July 1st, 1977 to June 30th, 1980.

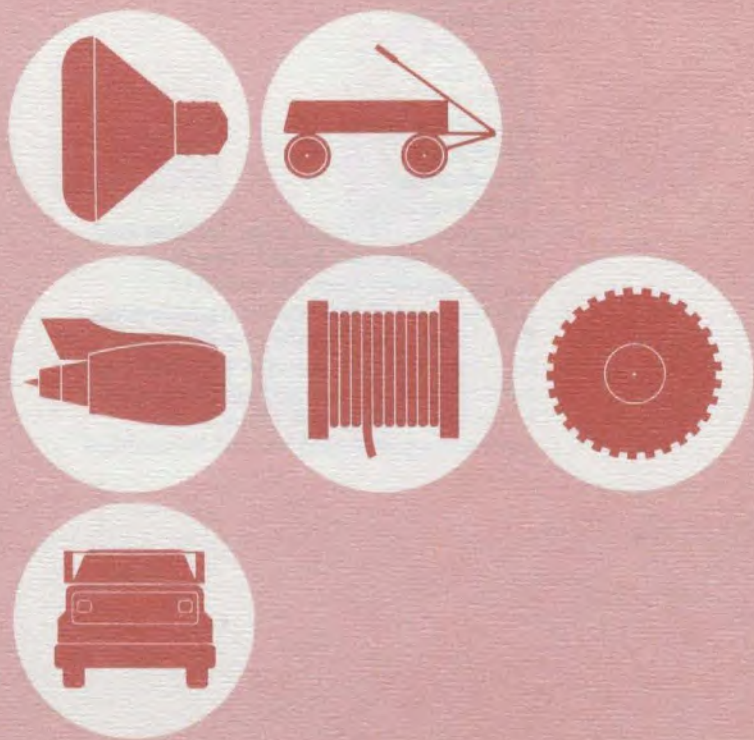
What region is eligible?

The eligible area is described in Schedule I of the Special Areas Order. In the Province of Québec, the following surveyed counties are:

Bagot
Beauharnois
Brome
Chambly
Châteauguay
Deux-Montagnes
Iberville
Montréal Island and Île-Jésus
Laprairie
L'Assomption
Missisquoi
Napierville
Richelieu
Rouville
Shefford
Saint-Hyacinthe
Saint-Jean
Terrebonne
Verchères and
that portion of Montcalm, Joliette and Berthier counties located south of a line running from the point of intersection of the boundary between Montcalm and Terrebonne counties and the southern boundary of Rolland township, eastward along the southern boundary of Rolland, Cousineau, Forbes, Gouin and Brassard townships to the boundary between Berthier and Maskinongé (the said townships are shown on Maps No. 31I and No. 31J of the National Topographic System [1:250 000] produced by the Surveys and Mapping Branch, Department of Energy, Mines and Resources); that portion of Argenteuil county located east of a line running from the point of intersection of the boundary between Argenteuil and Terrebonne counties and the eastern boundary of Howard township, southward along the eastern boundary of Howard, Wentworth and Chatham townships, (the said townships are shown on Maps No. 31G and No. 31J of the National Topographic System [1:250 000] produced by the Surveys and Mapping Branch, Department of Energy, Mines and Resources); and that portion of the municipality of Lachute located in Chatham township.

2. Types of Incentives

3. Eligibility



What type of financial assistance is available?

The department offers three types of incentives:

- Non-repayable development incentives
- Repayable development incentives
- Provisionally repayable incentives (if the project achieves a certain level of profitability or other objectives specified in the agreement between the applicant and the Minister).

What industries are eligible?

Eligible industries are described in Schedule I Plan of the Special Areas Order. They can be listed as follows:

1. food industries dealing in prepared and quick frozen food,
2. metal fabricating industries,
3. machinery industries,
4. transportation equipment industries,
5. electrical products industries,
6. chemical and chemical products industries,
7. scientific and professional equipment industries, and
8. sporting goods and toys industries.

Who may apply for an incentive?

Any type of Canadian or foreign entity may apply, e.g. incorporated companies, partnerships, cooperatives or sole proprietorships.

What are the requirements with respect to Canadian ownership?

Canadian ownership is not a prerequisite for the authorization of an incentive. However, applicants subject to the provisions of the Foreign Investment Review Act (FIRA) must satisfy the requirements of that Act before they can qualify for an incentive.

What size of project is determined eligible?

The approved capital costs for new facilities, expansions and modernizations must be at least $100 000.

Does prior commitment render a project ineligible?

If any prior commitment, whether or not such commitment remains in force, was made for buildings, machinery or equipment before the day on which the application was officially received, any incentive offer may be declared null and void.

Must eligible assets be new?

No. Used buildings, machinery and equipment may be included in eligible assets, provided they are in suitable working condition. Assets purchased in a non-arm's length transaction may be eligible in some circumstances, but only to the extent of the direct costs to the non-arm's length party, e.g. from an affiliate who is an equipment dealer. Existing assets owned by an applicant or an associated firm which are moved to the facility are ineligible, but certain rebuilding, transporting and installation costs may be eligible.

Are mobile operations eligible?

Normally they are not. However, certain mobile operations may be eligible provided they remain within the Special Area for at least five years.

How much equity must the applicant invest in a project?

Normally, the applicant must provide equity equal to at least 20 per cent of the total capital employed (including working capital) in the eligible operation. For applicants with existing operations, the equity must be equal to at least 20 per cent of the new capital employed plus 20 per cent of the book value of existing assets and working capital.

The amount of equity includes share capital, surplus accounts and subordinated shareholders' loans, adjusted for such items as intangibles, appraisal increases, amounts due from shareholders, or similar items which may inflate the equity figure unreasonably. However, the equity requirement may be increased for high risk or sensitive projects. In certain unusual circumstances, the Minister may approve a project where the applicant's equity is less than that specified above but never below 20 per cent of the approved capital costs.

When must equity be provided?

Unless special authorization is given, the equity should be provided at the latest by the start of commercial production. No incentive payment can be made until the equity is provided.

What are the requirements with respect to insurance coverage?

The facility must be insured to the satisfaction of the Minister against loss by fire, flood and other acts beyond the control of the applicant.

Is pollution abatement equipment eligible?

Capital costs incurred to prevent air, water and other types of pollution may be included in the approved capital costs of a project that is otherwise eligible for an incentive. However, a project involving only the purchase and installation of pollution abatement equipment is not eligible.

Are leased assets eligible?

The costs of leased machinery and equipment, which fall into classes 8 and 29 of Schedule "B" to Part XI of the Regulations to the Federal Income Tax Act, may be included (under certain conditions) in the approved capital costs of a project.

Can the assets be leased from any leasing company?

No. The lessor must be a company incorporated in Canada and subject to Canadian Income Tax legislation.

Are leasehold improvements eligible?

Costs of leasehold improvements may be included in approved capital costs provided they reflect improvements essential to the proposed project.

Are takeovers eligible?

No, although the takeover of a firm which has qualified for a grant may not disqualify the grant commitment. Further, an application for an incentive to purchase the assets of an existing facility may be considered eligible if the facility has ceased operations and the applicant proposes to make the purchase from non-related interests.

Are phased projects eligible?

Phased projects can be considered eligible provided they are well-defined when the application is submitted to the department and they meet certain specified requirements. However, all phases of the project must be completed within a fixed period starting from the date of commercial production for the first phase of the project.

Are feasibility studies eligible?

No. However, capitalized engineering and designing costs which are directly related to the facility may be included in the approved capital costs.

Are prototype development or research and development costs eligible?

Development incentives are not available for research and development projects. Assistance on such projects may be available from other sources such as the federal Department of Industry, Trade and Commerce and the National Research Council.

Is the expansion or modernization of a facility previously supported by DREE eligible?

The expansion or modernization of a facility which has previously been supported by the department is considered eligible. However, a development incentive cannot be authorized for the modernization of any facility for which a development incentive has previously been authorized under the present incentives program.

4. The Incentive

Why are incentives awarded?

The Minister will award an incentive only if DREE's contribution is essential to carry out the project. Furthermore the project must meet DREE's objectives of creating employment and contribute, as much as possible, in improving Québec's industrial structure.

How is the amount of development incentive determined?

The incentive given to firms in the Montréal region is based solely on approved capital cost. The amount offered depends on the nature of a project and its location. The maximum level of an incentive is 25 per cent of the approved capital costs in the case of a new facility and 20 per cent of the approved capital costs in the case of a modernization or expansion project. However, although the maximum rate of development incentives will be uniform throughout the new special area, the actual incentive offered will reflect DREE's desire to avoid undue concentration in the metropolitan area and to bring new facilities to the satellite towns, in accordance with their respective industrial roles.

Can financial support be obtained from other government sources in addition to a DREE incentive?

Yes. However, assistance offered by the other federal departments and provincial or municipal governments will be taken into consideration in determining the amount of the development incentive. Changes in the amount of the assistance from other government sources identified at the time of an offer, may be taken into account in determining the final amount of the incentive paid.

How does the development incentive affect income taxes?

Development incentives are exempt from income tax. However, for capital cost allowance purposes, in the case of a non-repayable grant the cost of the assets of the facility must be decreased by an amount equal to the development incentive paid.

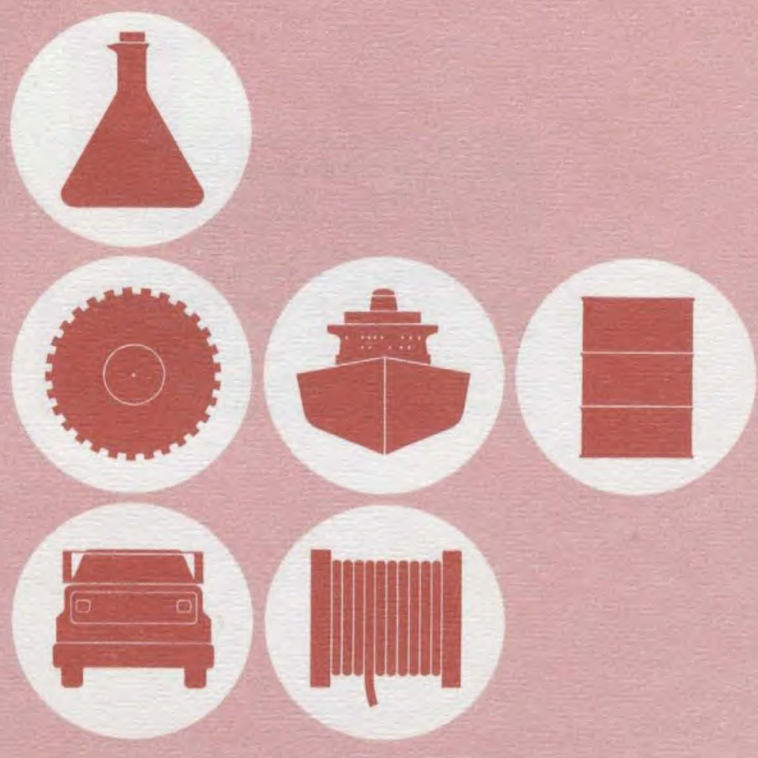
If the incentive is specifically repayable, it does not affect the capital cost allowance which may be claimed on assets purchased with this incentive. A provisionally repayable incentive is regarded by the Department of National Revenue to be a grant for tax purposes and, therefore, the capital cost allowance is reduced accordingly. If and when repayment of the incentive commences, capital cost allowance privileges are reinstated in the amount of the repayment in the year in which the repayment is made.

What are the income tax implications relating to the portion of a grant based on the eligible leased assets?

The applicant does not have his capital cost allowances reduced by the part of the grant that is based on the eligible leased assets. The leasing company which receives the payment from the applicant must take it into taxable income in the year received. However, for taxation purposes the lessor can charge to income a reserve equal to the unamortized value of the leased assets. Each subsequent year during the life of the lease, the lessor amortizes the reserve with a credit to taxable income.

4. The Incentive (continued)

5. Exchange of Correspondence



What are the normal conditions respecting development incentives?

Apart from those outlined above, a few of the more important conditions are:

- The applicant must cooperate with Canada Manpower Centres in his recruitment and training of manpower. He must undertake to employ as many residents of the region in which the facility is located as practicable.
- Pollution control systems must meet standards of appropriate regulatory bodies.
- The applicant must give Canadian manufacturers a reasonable opportunity to produce the machinery and equipment for the project.

Are there any special conditions respecting development incentives?

The agreement may stipulate special provisions resulting from the project evaluation that has been made. Where such special provisions are included, they are normally designed to provide additional assurance of viability or enhance the expected net economic and social benefits.

What are the usual terms of the agreement?

The agreement specifies the estimated amount of the incentive and also sets the date by which construction must begin and the date by which the facility must achieve commercial production. These dates are usually determined by the applicant at the time of submitting his application. The letter also specifies that the eligible assets must be acquired, installed and utilized not later than 24 months from the date the facility was brought into commercial production. The applicant has up to 90 days to execute the agreement.

Is the information provided to the department held in confidence?

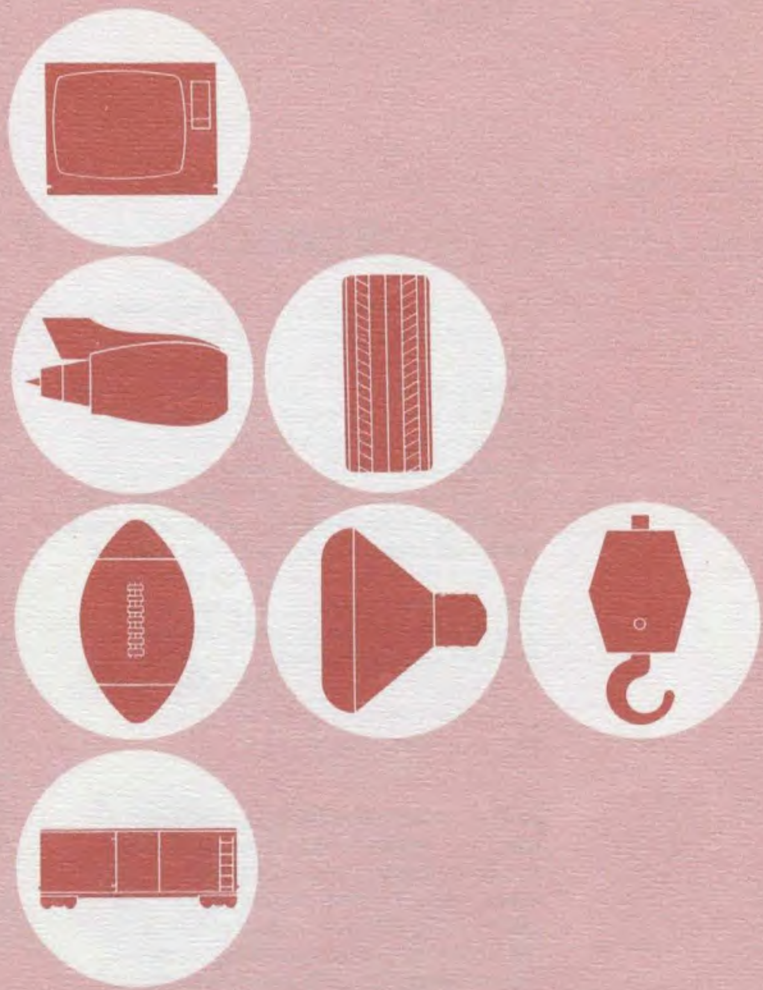
All information is held in confidence until the agreement is executed. If so, the Minister reports to Parliament the name of the applicant, the location of the facility, the product or process involved, the estimated capital costs, the number of direct jobs to be created, the rate of offer, and the amount of the incentive. All other information remains confidential.

What happens when the agreement is executed?

If the agreement is executed within 90 days, construction must start within the time limits specified. However, if the agreement is not executed within 90 days, it automatically lapses. As the project proceeds, attention should be given to any possible problems – especially any involving changes of plans. Contact should be made with the incentives officer to comply with requirements respecting significant changes and to clarify any concerns which the applicant may have.

As the commercial production period approaches, the applicant should consult with the incentives officer concerning documentation required to facilitate the inspection of the plant. Early arrangements are well worthwhile to ensure early payment.

6. Payments



When is the incentive normally paid?

The first payment, of up to 80 per cent of the approved total incentive, can be made 30 days after the plant has been brought into commercial production and after an inspection has revealed that the project is operating in accordance with terms of the agreement. The remainder of the approved incentive will be paid between 24 and 30 months after the start of commercial production.

What procedures are followed at the time of incentive payment?

The initial payment of an incentive is contingent upon the verification made by an incentives officer of the department through a physical inspection of the facility and a review of the firm's financial and other records. A similar verification is made prior to the final payment being made.

Are there any provisions for interim payment?

Yes. Interim payments are permitted in order to reduce financial strains on an entrepreneur who must install assets over a period of time following commencement of commercial production. However, payments must exceed 25 per cent of the initial payment.

Are there any provisions for capital cost overruns?

Yes, there is an allowance for overruns of up to 25 per cent of the originally authorized capital cost. Some higher amounts may be authorized provided that special authorization is sought before excess costs are incurred.

Can the applicant make significant changes to the project after having executed the agreement?

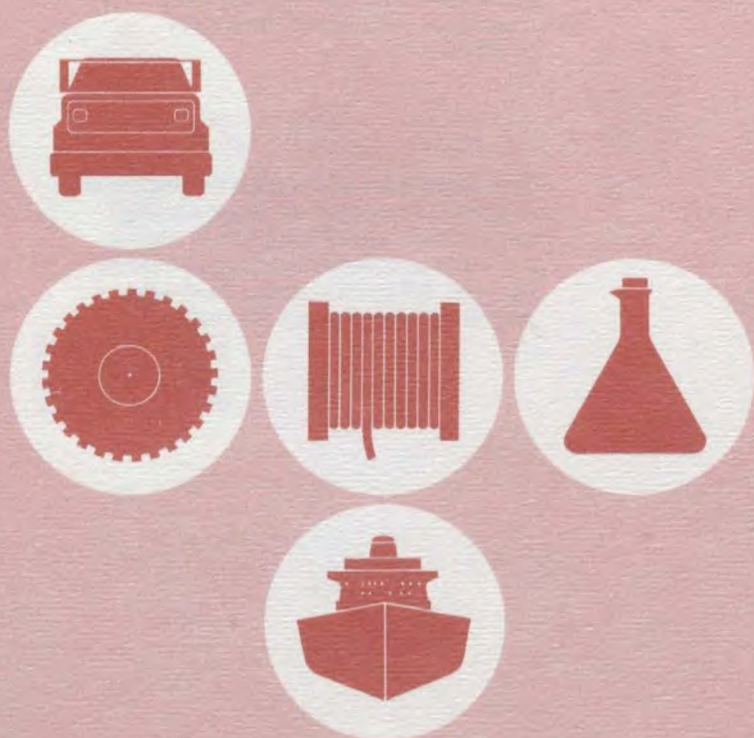
If a significant change—of ownership, management, financing, location, plant size or timing—is contemplated after the execution of the agreement, a formal request must be submitted to the department for consideration. The agreement may then be amended or withdrawn. Under no circumstances will these changes be included in approved capital costs if already committed.

How is the incentive paid if assets are leased?

Although the incentive is paid to the applicant, he must transfer the amount directly related to the eligible leased assets to the leasing company upon receipt of such funds.

7. Hints for Applicants

8. Glossary



Application for an incentive

At the time of applying for an incentive, the applicant should, if possible, contact a DREE incentives officer, who will clarify any points on eligibility and the type of information that should be submitted with the application.

Study of application

Each application is assigned to an officer, who will be responsible for that case until the evaluation is completed. His task is to ensure that all necessary information is obtained and analysed, and that there is liaison with other government departments as may be required. Once all pertinent information is submitted, the application is promptly reviewed. Each evaluation decision results in a letter of agreement or a letter of rejection.

Consultation between the applicant and DREE officers

At any time during the progress of the project, the applicant may contact his incentives officer for assistance and advice. This can save problems later. As the time of commercial production nears, the applicant should consult his incentives officer to ensure that the latter schedules the time for inspection well in advance.

The terms outlined here are explanatory only and are not meant to be legal information.

Agreement

Means the contract, made pursuant to the Department of Regional Economic Expansion Act and entered into between the Minister and an applicant, which sets forth the amount of development incentive payable subject to specified conditions.

Approved Capital Costs (ACC)

Means the capital costs of assets approved by the Minister as forming the whole or part of a facility, but does not include land and a few other types of assets.

Commercial Production

The Minister may determine that a new, expanded or modernized facility has been brought into commercial production when the facility has been utilized in the continuous production of marketable goods in commercial quantities for a period of not less than 30 days, and in addition, when more than 50 per cent of the eligible assets, as forecast for the purposes of the authorization of the development incentive, are being and will continue to be used in the manufacturing or processing of those goods.

Control Period

This term refers to the general period by when specific requirements of the Agreement between the applicant and the Minister must be met. In general, the control period is 24 months after the facility is brought into commercial production. In the case of an eligible mobile operation, the control period is extended to 60 months. For leased assets on which a grant is paid, the control period is the duration of the lease.

Equity

Equity means:

i) the aggregate of
  a) the share capital,
  b) earned surplus,
  c) contributed surplus,
  d) other surplus or deficit accounts,
  e) shareholders' loans that are subordinated to all other liabilities, and
  f) the proprietor's or partners' capital accounts,

ii) less such accounts that, in the opinion of the Minister, unreasonably inflate the net worth of the applicant.

New Facility

To qualify as a new facility, the proposed operation must use independent services and plant management separate from any existing facility. It must be a self-supporting operation, capable of existence independent of any existing facility.

Working Capital

The working capital is the excess of current assets over current liabilities other than loans as will be required when the operation is in production at its intended full capacity.

Conclusion

The designation of the Special Area of Montréal has been conceived as a short term measure to reduce unemployment and boost investments in order to strengthen Montréal's leading role as Québec's main development centre. This program stems from the long term objective to modernize the Region's industrial structure.

More specifically, this special program is expected to bring about investments in the order of $300 million in the most dynamic industries of the manufacturing sector and create some 25 000 permanent jobs of which 12 000 will be direct.

This Special Area program can thus be considered an important contribution toward the economic recovery of Québec.

Please Note

This brochure was prepared for information purposes only and in no way constitutes a legal document binding on this Department.

If you are planning to establish new facilities or to expand or to modernize existing ones in the Montréal Special Area or elsewhere in Québec, be sure to contact us to take advantage of the benefits offered to you.

We might have the very help you need!

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Subventions à l'industrie
Industrial Incentives