

Digital economy: almost \$700M in tax credits

CGI, Ubisoft and Morgan Stanley Bank among the primary beneficiaries

Monday, October 7, 2019 by Sylvain Larocque, Journal de Montréal

Taxpayers are forking out more and more of their tax dollars to video game developers in the form of tax credits. This year, payments will total \$694M, a 40% increase from five years ago.

At least 588 software publishers and IT service providers are receiving tax credits for e-business development, while 170 video game studios are getting the tax credit for the production of multimedia titles.

Industry growth

In just five years, there has been a 44% jump in the number of employees for whom tax credits were received, with that number currently standing at over 36,000 in the video game sector and at close to 34,000 in the IT sector.

“Companies are growing. Last year, our membership grew by almost 20%, and the year before that, it was over 10%. These are great days for us,” states Nicole Martel, CEO of the Quebec Technology Association.

In Quebec, there are some 1600 SME specializing in IT, with over 150,000 people employed in the industry.

However, Ms. Martel adds that the smallest companies operating in the sector face a lot of difficulty obtaining the tax credit for the development of e-business.

An American giant grows even bigger

“The rules are so complex that most often, most such credits will go to either the biggest companies or to companies with fully developed human resource departments.”

While Quebec companies such as CGI and Alithya are among the biggest beneficiaries of tax credits in the province, huge chunks also go several foreign companies, notably Ubisoft, Keywords Studios, Ericsson and Morgan Stanley.

Morgan Stanley, which already has 1200 employees at its offices at the Multimedia City in Montreal, is currently in the midst of a major expansion.

The bank will be taking back the former headquarters of both the Sid Lee ad agency and the Logibec computer company. Le Journal contacted the bank's representatives in New York, but they would not disclose the number of employees it would be hiring in Quebec.

A number of the bank's employees in Montreal originate from India, where Morgan Stanley has five offices.

Investissement Québec cannot say for certain how many of the workers who are eligible for the tax credit for the development of e-business are Canadian citizens or permanent residents.

In response to an access to information request by Le Journal, the organization stated: "Investissement Québec does not compile statistics on employees' citizenship status information provided by companies with respect to fiscal measures because it does not need such information for its analyses."

Government assistance in figures

Tax credit for the development of e-business

- Total cost, 2019: \$463M
- Number of companies: 588
- Number of employees: 33,500
- Primary beneficiaries: CGI, Alithya, Morgan Stanley

Tax credit for the production of multimedia titles

- Total cost, 2019: \$231M
- Number of companies: 170
- Number of employees: 36,200
- Primary beneficiaries: Ubisoft, Keywords Studios, Electronic Arts

Tax giveaways exceed the \$ 4 billion threshold

This year, tax giveaways to companies will be surpassing the \$4B threshold, a jump of over 25%.

Figures from the Ministry of Finance indicate that considered over a five-year period, that jump is close to 29%.

For 2019, tax credits and other deductions will cost Quebec \$4.18B. In comparison, the government is expecting to collect \$9.04B in corporate taxes this year.

In addition to these fiscal measures, there is also the cost associated with government grants and preferential loans made to companies each year, and for 2018-2019, the Ministry of Economy alone has a budget of over \$240M for these line items, while several other government bodies are also providing assistance to corporations.

The wrong track

Mr. Germain Belzile, a senior lecturer at HEC Montréal, and director of the Economic Institute of Montreal, believes the government is heading down the wrong path by giving so much money to some companies in particular.

According to him, “There is a much more efficient way to proceed. That means chopping all those expenditures and further reducing corporate profit taxes, as the United States, English Canada and several European countries have done in recent years.”

It should nevertheless be recalled that the increase in fiscal incentives for companies is largely due to efforts implemented to encourage private sector investments (accelerated capital cost allowance).

Mr. Belzile acknowledges that that is a good way to help companies grow and acquire the equipment they need to improve productivity.

Incidentally, research and development (SR&ED) tax credit costs have decreased by 20% since 2014 as a result of a drop in the refund rate and because new constraints have been instituted.

That said, the measure will still cost the government over \$500M this year.

Emergex SR&ED Consultants is a consulting firm specialized in financing technology companies through claims of Scientific Research and Experimental Development (SR&ED) and E-Business (CDAE) tax credits, the Industrial Research Assistance Program (IRAP) grant and other government aids. For 20 years, Emergex has been helping its clients receive hundreds of millions of dollars in government tax credits and grants.

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