



## Comptes à Rebours

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Subject: REFUNDABLE INCOME TAX CREDIT FOR E-COMMERCE

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Dear client,

We take pleasure in sharing with you the latest information on the refundable income tax credit for electronic commerce.

This is a recent measure from the Government of Quebec and it is therefore difficult to find reliable information on the subject. One consequence of this is that there is no available form for claiming this credit yet. However, we have prepared our own form that we will use to claim your credit in the meantime. Since information regarding a new tax credit changes very rapidly, we recommend that you contact us before making your claim in order to ensure that you are working with accurate information. We trust you will profit from the following.

### What the refundable tax credit is

This tax credit covers 40% of the expenses incurred by a small or medium-sized company to create a transactional web site. **The maximum assistance is set at \$40 000 per company.**

The maintenance of a transactional web site already in operation entitles a company to a credit of \$1600, 40% of the maximum amount of \$4 000 in eligible expenses.

### Definitions

An eligible transactional web site is:

- A site that allows the purchase or sale of goods and services
- And/or a site that allows the exchange of commercial documents such as: invoices, purchase orders, debit or credit notes, calls for submissions or quotes.

- To be eligible the site must be secure<sup>1</sup>.

However, it is not necessary that the site be equipped with an on-line payment service to qualify for the refundable tax credit. The transactions can be carried out through a network that is either open (Internet), closed (EDI) or hybrid (extranet, accessible only by authorised partners having user ID and password)

This definition excludes all information sites or company windows on the Internet that only provide information about the company, its achievements, products and services.

### **Criteria for eligibility**

To be eligible, the company must:

1. Have net assets of less than 12 million dollars (including affiliated companies);
2. Have a sales figure of less than 25 million dollars (including affiliated companies);
3. Companies have until March 31<sup>st</sup>, 2002 to file their claim.

NB: Individuals and non-profit organisations are not eligible.

### **Eligible expenses**

Eligible expenses are those incurred to create an e-commerce solution, i.e. in the development of a transactional web site.

The following expenses are eligible:

1. The salaries of employees given the task of setting up the e-commerce solution;
2. The purchase of application software;
3. 80% of consultation fees<sup>2</sup>.

Provided that they pertain to:

- an e-commerce solution implementation assessment;
- the setting up of a marketing strategy for the e-commerce solution;
- the development of the transactional web site or a business-to-business transactions system;
- the maintenance of the ecommerce solution (for a three-month period following the site's set-up).
- employee training and technical support (for a three-month period following the site's set-up).  
The salaries paid to employees attending the training course are not eligible for the tax credit.

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<sup>1</sup> Transactions have to be made using a computerized system that allows user authentication and ensures the confidentiality of exchanged information (user name + password)

<sup>2</sup> To be eligible these fees must be paid to a Quebec company.

Please note that :

- Tax refund can be claimed on more than one fiscal year but not exceeding three;
- All eligible expenses must be spent by the time of the request;
- The tax credit cannot be claimed for improvements to a site that has been in operation for over a year.

The following expenses, however, are not eligible:

- The costs of marketing the e-commerce solution (except those relating exclusively to the conception of a marketing strategy).
- The costs incurred in purchasing or leasing goods, except those relating to the purchase of application software for inclusion in the e-commerce solution.

### **Procedures to follow**

The company must attach to its tax return the completed form recommended by the Ministry of Revenue. The company will thus be able to benefit quickly from the credit as it will be deducted from its instalment payments for income tax and capital tax. Unfortunately, the form is not yet available but, according to the government, it should be shortly. Until then, the Ministry will accept hand-written applications and will communicate with the companies for any missing information. We can help you filing that form.

### **Accounting**

In order to facilitate preparation for the tax credit claim for transactional web sites, we suggest that you create the five following expense accounts in which eligible expenses should be registered:

- A « **Salaries – Web Site** » account can be used to record the salaries paid for the creation, planning, production, training, maintenance and/or updating of the transactional web site.
- « **Computer Equipment – Web Site** », « **Computer Expenses – Web Site** », « **Maintenance & Updating – Web Site** » accounts can be used to record the costs of purchasing equipment, accessories, software and/or all expenses wholly incurred in the creation, planning, production, training, maintenance and/or updating of the transactional web site.
- A « **Consultation Fees– Web Site** » account can be used to record consultation fees paid to professionals working exclusively on the creation, planning, production, training, maintenance and/or updating of the transactional web site.

We hope that you find this information useful. We are at your disposal for any questions or comments you might have.

The team at **Comptes à Rebours**.