

Small Business Investor Tax Credit

Information Session

Presentation Outline

- ☀ Program Description
- ☀ Characteristics of SBITC
- ☀ Corporation Eligibility Criteria
- ☀ Investment Eligibility Criteria
- ☀ Investor Eligibility Criteria
- ☀ Mechanics of the Program
 - ✱ Certificate of Registration
 - ✱ Tax Credit Certificate

Program Description

- ✦ For investment up to \$250,000, the program will provide a 30 per cent non-refundable personal income tax credit in provincial income tax payable, up to \$75,000 per year including any unused amounts from other years.
- ✦ Increases access to equity financing for New Brunswick small businesses.
- ✦ Personal income tax credit that does not affect other federal credits available to a business.

Characteristics of the SBITC

- ✦ Applicable to the Individual investors who invest in eligible small businesses in the province.
- ✦ Investors can carry unused credits forward for seven years or back for three years.
- ✦ The credit applied cannot be more than the investors New Brunswick Tax for that year.
- ✦ Investor must hold shares for 4 years after purchase.

Characteristics of the SBITC (Con't)

- ✦ Early redemption, during the 4 years, requires the Investor to repay the credits received
- ✦ During the 4 years, if a corporation's SBITC registration is revoked, or the corporation winds up or dissolves, the corporation shall repay all of the allowed tax credits issued during that period.
- ✦ Repayment not required in the event of the death of the Investor or transfer to an RRSP.

Corporation Eligibility Criteria

- ✦ New and existing New Brunswick Private Corporations.
- ✦ Authorized capital consisting of shares without par value.
- ✦ Generating active business income in New Brunswick.
- ✦ Active business as defined by CRA.
- ✦ Less than \$40M in net tangible assets, including associated companies.

Corporation Eligibility Criteria (Con't)

- ✦ Pay at least 75% of its total wages & salaries to NB residents in the following four years.
- ✦ Businesses cannot provide financial assistance to individuals to purchase shares.
- ✦ Replacement share is not eligible.

Investment Eligibility Criteria

- ✦ Must have a minimum of 3 investors.
- ✦ Must raise a minimum of \$10,000 in equity capital.

Prohibited use of funds:

- ✦ Lending.
- ✦ Purchasing the shares of another person.
- ✦ Investment outside NB.
- ✦ Investment in land.

Investment Eligibility Criteria (Con't)

- ✦ Prohibited use of funds (con't):
 - ✦ Payment of dividends.
 - ✦ Purchasing all or part of any services or assets at a price > fair market value.
 - ✦ Purchasing services or assets from the Province.

Investment Eligibility Criteria (Con't)

- ✦ Prohibited use of funds (con't):
 - ✦ Redemption or purchase of the corporation's issued shares.
 - ✦ Payment of shareholder liabilities.
 - ✦ Purchase assets of an existing entity in receivership or in bankruptcy where eligible investors did own at any time more than 10% of the voting shares of the entity.

Investor Eligibility Criteria

- ☀ Must be 19 years of age or older.
- ☀ Must invest a minimum of \$1,000.
- ☀ Must maintain the investment for at least four years or the tax credit will have to be repaid.
- ☀ An investor may not use financial assistance from any government, municipality, or public authority to purchase the shares.

Mechanics of the Program

- ✦ Corporations obtain a Certificate of Registration permitting them to issue SBITC shares.
- ✦ Corporations finalize sale of shares within 90 days.
- ✦ Corporations apply for the Investors Tax Credit Certificates.
- ✦ Investors attach the Tax Credit Certificate to their income tax forms to obtain the credit.
- ✦ For 4 years, the Corporation files an Annual return.

Certificate of Registration

- ✦ Corporation must submit:
 - ✦ Application form.
 - ✦ Investment plan.
 - ✦ Director's Statement
 - ✦ Reviewed financial statements including those of associated companies.
 - ✦ T2 of previous taxation year, including those of associated companies.
 - ✦ Certified copy of instrument of incorporation.
 - ✦ Certified copy of corporate share register.

Certificate of Registration

Investment plan must contain:

- Amount and proposed use of the raised capital.
- Names of no fewer than 3 potential investors.
- Number of shares and investment amounts for each potential investor.

Certificate of Registration

- ✦ Investment Plan (con't)
 - ✦ Summary of corporations major business activities and revenue sources.
 - ✦ Total of wages and salaries paid.
 - ✦ Wages & salaries paid to NB residents.
 - ✦ Complies with the spirit and intent of the SBITC Act and Regulations.
 - ✦ The proposed use of the capital will benefit the corporation's NB operations.

Application for Tax Credit Certificate

- ✦ After the eligible shares are sold the business must provide:
 - ✦ Application for an Investor Tax Credit Certificate.
 - ✦ Investor statements.
 - ✦ Certified copies of the share certificates and a certified copy of the share register.

Tax Credit Certificate (Con't)

- ✦ The following endorsement must be on the share certificates:
“the right to redeem or transfer this class of share is subject to the provisions of the Small Business Investor Tax Credit Act.”
- ✦ At income tax time, Finance will issue tax credit certificates to individual investors.
- ✦ When Investors complete their income tax return they must file form T1258 New Brunswick Small Business Investor Tax Credit Form.

Annual Return

- ★ During the four-year holding period, the Corporation must annually provide:
 - ★ Detailed status report of its shareholdings
 - ★ Reviewed financial statements
 - ★ Other information required to confirm the use or disposition of the raised capital.
- ★ During the four-year holding period, the investors must provide the corporation and the Department of Finance any required information.

Further Information

- ☀ Tel: (506) 453-2404
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Questions?