

Atelier PMC Inc.

Fabrique
..... durabilité et qualité

Small Business Investor Tax Credit Program

Business Start-up, Acquisition and
Development

Achieving Maximum Leverage

Business Financing

- Investing in your Business
 - Bank loans made by the business.
 - Money from personal savings.
 - Money from friends and family.
 - Money from strangers interested in your project.
- Form of investment
 - Due to shareholders.
 - Personal loans made to the business.
 - Share capital.

Business Financing

- Acquiring or starting up a business often requires fairly significant financial contributions from sponsors.
- Traditionally, entrepreneurs always invested in their business in the form of **due to shareholders**.
 - Considered to be a business debt.
 - The financial ratios are lower compared with an investment in the **share capital**.
 - Banks often impose restrictions that can result in additional legal costs. (subordination of due to shareholders)

Business Financing

- In the past few years, the Government of New Brunswick has developed a program to facilitate investment in small businesses.
- This program promotes investments in businesses' share capital by granting a TAX CREDIT to those who invest.
 - This is a provincial tax credit of 30%.
 - The investment can also be classified as an RRSP, thus providing an additional credit, which can reach up to 40%.
 - You can recover taxes paid over the past three years or carry the credit forward over the next seven years.

Case Study

- Atelier PMC Inc. (First Year)
 - Business specializing in manufacturing metal products for the peat, fisheries, mining and forestry industries.
 - Three entrepreneurs (Denis, Robert and Stéphane) decided to purchase this business.
 - In order to conclude the transaction and proceed with the acquisition of the business, we each had to invest \$50,000, for a total investment of \$150,000. The sums were used in order to qualify for the investor tax credit.
 - Robert had some savings, so he used them for the investment.
 - Denis did not want to use his savings, so he took out a personal loan from the bank in the required amount.
 - Stéphane used money from his immediate family.

Case Study

- Characteristics of each of the investors.
 - They each received the provincial tax credit of 30% prescribed by the program, i.e. a return of \$15,000 when they filed their respective tax returns.
 - All three received the return and their investment cost them \$35,000 instead of \$50,000, for a total leverage of \$45,000 for the shareholders.
 - Each one could have taken advantage of the RRSP option and obtained an additional credit of 40%.
 - The main advantage would have been for each to obtain a \$20,000 tax credit.
 - The disadvantage is that if the business did not succeed, they could not claim their loss on their tax return.
 - Together, they would have obtained leverage totalling the \$105,000 for the shareholders.

Case Study

- Atelier PMC Inc. (Second Year)
 - The business needed to purchase new equipment for its Dalhousie plant. The cost of the equipment came to \$225,000.
 - A new request was submitted to the Province and was accepted.
 - The three partners went to consult with the bank and proposed the following scenario:
 - Each take out a personal loan of \$75,000 guaranteed by the equipment. The interest is personally deductible.
 - The total of \$225,000 borrowed personally by the three was invested in the business as share capital.
 - Each one received \$25,000 in tax credit and together benefited from a financial leverage of \$75,000. The equipment cost them \$150,000 instead of the initial \$225,000.

Case Study

■ Conclusion

- This tool (tax credit) can be used for:
 - Starting up a new business.
 - Purchasing an existing business.
 - Any type of business expansion project.
 - Increasing the business's cash flow to further its expansion projects.
 - Purchasing new equipment.
- The business's financial statements now show ratios that are much more attractive to the banks, which are offering better credit terms.

Case Study

■ Conclusion (cont'd...)

- This is a tool that can be used to establish the loyalty of certain key employees by offering them the option of buying shares in the business.
- This tool provides a competitive advantage for businesses wishing to make use of it.
- Consequently, it requires adequate planning with the help of experts in the field.
- Our accounting firm assisted us in a professional manner throughout the process, and we have benefited greatly from it.

Closing Remarks

Questions

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