Schedule "A"

(Tax Credit Publication)

AN OVERVIEW OF TAX CREDITS IN CANADA

I. INTRODUCTION – A STARTING POINT FOR YOUR RESEARCH

This paper provides background information about ***some*** of the tax credits currently available in Canada for venture capitalists and venture capital corporations, both public and private. It is ***not*** a comprehensive list.

The information was originally gathered for the Investment Tax Credit Subcommittee of the Government Relations Committee of CDNX. The Subcommittee was interested in identifying differences in tax credit availability for private companies and their investors as compared to public companies and their investors.

The Subcommittee suggested this information be made available on CDNX's website.

The Contributors: KPMG LLP and CDNX

CDNX gratefully acknowledges the KPMG contributions on Scientific Research & Experimental Development tax credits, Labour-Sponsored Venture Capital Fund tax credits, Flow-through Shares and Manufacturing & Processing Tax Credits, current to April 30, 2001. All KPMG contributions are specifically identified and acknowledged throughout this paper.

Please read KPMG's "Disclaimer and Terms of Use" before proceeding - Click here.

CDNX contributed the balance of the information, which was gathered through casual research - web site reviews and phone conversations. It is current to November 1, 2000. ***CDNX provides no assurances whatsoever about the accuracy of the information it contributed. The information is not and is not to be relied upon as tax advice. Readers interested in learning more should contact government ministries or agencies responsible for administering tax credit programs directly.***

Please read CDNX's "Legal – Terms of Use" before proceeding - Click here.

II. BACKGROUND INFORMATION

1. Canada lags behind the United States, on a per capita basis, in raising venture capital. In 1999, $2.3 billion (Cdn.) in venture capital was raised in Canada. $45 billion (U.S.) was raised in the United States. These figures suggest a proportionate Canadian performance should have been about $7 billion (Cdn.).[1]

2. Every Canadian jurisdiction wants to encourage business development, but the means employed from jurisdiction to jurisdiction are dramatically different. Some jurisdictions offer a large number and variety of tax credit and loan and grant programs to encourage business development (Ontario, Québec). Other jurisdictions focus on offering low tax rates (Alberta).

3. Some tax credit programs are available exclusively to Canadian Controlled Private Corporations ("CCPCs") and their investors, not to public companies and their investors.

4. Labour-sponsored venture capital funds qualify for tax credits and account for approximately 50% of all venture capital raised in Canada.

5. The October, 2000 federal "mini-budget" paper did not contain specific proposals for additional tax credits.

---

[1] Source: Canadian Venture Capital Association website, October, 2000: www.cvca.ca

III. COMPARATIVE TAX CREDIT TABLES

TABLE "A": CORPORATIONS

**** INDICATES TAX CREDIT NOT AVAILABLE TO PUBLIC CORPORATIONS.**
"BIAS" = FAVOURABLE TAX TREATMENT FOR PRIVATE CORPORATIONS.

PROGRAM	Fed.	B.C.	AB.	SK.	MB.	Ont.	QC.	N.B.	N.S.	P.E.	Nfl.
Scientific Research & Experimental Development Tax Credits (S.R. & E.D.) – **Click here for KPMG information …**	Yes Bias	Yes Bias	No	Yes	Yes	Yes Bias	Yes Bias	Yes	Yes	No	Yes
Manufacturing or Processing Tax Credit – **Click here for KPMG information …**	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
Oil and Gas or Mining Royalty Tax Credit	No	No	Yes	Yes	No	No	No	No	No	No	
Mining Tax Credits	No	Yes	No	No	No	No	No	No	No	No	No
New Technology Tax Credit	No	No	No	No	No	No	Yes	No	No	No	No
Film, Video or Television Tax Credits	Yes **	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	No	No
Film, Video or Television Production Services Tax Credits	Yes **	Yes	No	No	No	Yes	Yes	No	No	No	No
Interactive Digital Media Tax Credit	No	No	No	No	No	Yes	Yes	No	No	No	No
Dubbing Refundable Tax Credit	No	No	No	No	No	No	Yes	No	No	No	No
Book Publishing Tax Credit	No	No	No	No	No	Yes **	Yes	No	No	No	No
Musical Productions Tax Credit	No	No	No	No	No	No	Yes	No	No	No	No
Sound Recording Tax Credit	No	No	No	No	No	Yes **	Yes	No	No	No	No
Computer Animation & Special Effects Tax Credit	No	No	No	No	No	Yes	Yes	No	No	No	No
Design Tax Credit	No	No	No	No	No	No	Yes	No	No	No	No
On-the-Job Training Tax Credit	No	No	No	No		No	Yes	No	No	No	No
E-Commerce Solutions Tax Credit	No	No	No	No	No	No	Yes	No	No	No	No
Group Incentives: Information	No	No	No	No	No	No	Yes	No	No	No	No

PROGRAM	Fed.	B.C.	AB.	SK.	MB.	Ont.	QC.	N.B.	N.S.	P.E.	Nfl.
Technology Development Centres											
Group Incentives: New Economy Centres	No	No	No	No	No	No	Yes	No	No	No	No
Group Incentives: Cité du multimédia	No	No	No	No	No	No	Yes	No	No	No	No
Group Incentives: Centre National des Nouvelles Technologies de QC.	No	No	No	No	No	No	Yes	No	No	No	No
Group Incentives: Tax Credit for the Cité de l'optique	No	No	No	No	No	No	Yes	No	No	No	No
Group Incentives: Cité du commerce électronique	No	No	No	No	No	No	Yes	No	No	No	No
Group Incentives: Refundable Tax Credit for the Vallée de l'aluminium	No	No	No	No	No	No	Yes	No	No	No	No
Group Incentives: Refundable Tax Credit for Technopôle Angus	No	No	No	No	No	No	Yes	No	No	No	No
Group Incentives: International Financial Centres	No	No	No	No	No	No	Yes	No	No	No	No
Group Incentives: Montréal foreign trade zone at Mirabel	No	No	No	No	No	No	Yes	No	No	No	No
Marine Construction Tax Credit	No	No	No	No	No	No	Yes	No	No	No	No
Clothing & Footwear Industry Tax Credit	No	No	No	No	No	No	Yes	No	No	No	No

III (cont'd.) COMPARATIVE TAX CREDIT TABLES

TABLE "B": INVESTORS

**** INDICATES TAX CREDIT NOT AVAILABLE TO PUBLIC CORPORATIONS.**
"BIAS" = FAVOURABLE TAX TREATMENT FOR PRIVATE CORPORATIONS.

PROGRAM	Fed.	B.C.	AB.	SK.	MB.	Ont.	QC.	N.B.	N.S.	P.E.	Nfl.
Labour Sponsored Venture Capital Funds – **Click here for KPMG information …**	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Small Business Investment Tax Credits	No	Yes	No		No	Yes	Yes **	No	No	No	No
Flow-Through Shares (exploration & development) – **Click here for KPMG information …**	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Employee Share Ownership Tax Credit	No	Yes	No	No	No	No	Yes	No	No	No	No

IV. KPMG RESEARCH: FREQUENTLY USED TAX CREDIT PROGRAMS (at July 31, 2000)

Click here for KPMG Disclaimer and Terms of Use before continuing ….

1. Corporations: Scientific Research and Experimental Development ("SR & ED")

(a) Private Corporations - Net After-Tax Cost of Spending $1,000 in Qualifying Research and Development Activities

	B.C.	**Alta.**	**Sask.**	**Man.**	**Ont.**	**Que.**	**N.B.**	**N.S.**	**P.E.I.**	**Nfld.**
R&D expenditure	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Prov. ITC	(133)		(199)	(199)	(152)	(200)	(133)	(199)		(199)
Fed. ITC	(417)	(464)	(394)	(394)	(411)	(394)	(417)	(394)	(464)	(394)
Prov. Taxes saved from deduction	(21)	(32)	(33)	(28)	(51)	(54)	(20)	(20)	(40)	(20)
Fed. Taxes saved from deduction	(59)	(70)	(53)	(53)	(38) *(57-19)*	(53)	(59)	(53)	(70)	(53)
	$370	**$434**	**$321**	**$326**	**$348**	**$299**	**$371**	**$334**	**$426**	**$334**

Assumptions {Expandable}

This table calculates the net after-tax cost of performing research and development ("R&D") for a Canadian-controlled private corporation ("CCPC") earning manufacturing and processing (M&P) income in the various provinces. The calculations are based on the following assumptions:

1. The CCPC's R&D expenditures are eligible for the 35% investment tax credit ("ITC"). Specifically, it has been assumed that the corporation does not have qualified expenditures in excess of the corporation's expenditure limit, the taxable capital employed in Canada of the corporation and its associated group did not exceed $10 million in the previous taxation year, and the taxable income of the corporation did not exceed its business limit (for purposes of the small business deduction) in the previous taxation year.

2. One-half of the expenditures relate to R&D salaries and the proxy election has been made by the corporation, adding 65% of the salaries to the totals eligible for federal and certain provincial ITCs.
3. The CCPC federal and provincial tax rates are those that apply to small business corporations. The provincial tax rates used in the calculations are those in effect at the end of 2000. A number of provincial small business rates changed in the year and would therefore have to be prorated based on a corporation's taxation year to determine the actual net after-tax cost.
4. For presentation purposes, the effects of all ITCs have been included in the current year's deductions even though federal ITCs are actually deducted from the R&D pool in the subsequent year.
5. The amount of Ontario Superallowance claimed multiplied by the province's small business rate ($273 x 7% = $19) reduces the balance of R&D expenditures available for federal purposes, thereby decreasing the R&D pool and the ITC claim. Ontario's calculations are based on the lower Superallowance rate of 35%. If the CCPC is eligible to claim the higher rate of 52.5% on its expenditures, the net after tax cost would be $343. If the CCPC is also eligible to claim the Ontario Business Research Institute (OBRI) tax credit, the net after-tax costs would be $246 and $242, based on the low and high Superallowance rates.
6. In calculating the net after-tax cost of R&D in Québec, the provincial ITC (the R&D Wage Tax Credit) does not reduce the amount of expenditures qualifying for the provincial R&D deduction. If the corporation also qualifies for the incremental 15% tax credit, the net after-tax cost would be $254.

(b) Public Corporations - Net After-Tax Cost of Spending $1,000 in Qualifying Research and Development Activities

Click here for KPMG Disclaimer and Terms of Use before continuing ….

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.
R&D expenditure	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Prov. ITC	(133)		(199)	(199)	(33)	(100)	(133)	(199)		(199)
Fed. ITC	(238)	(265)	(225)	(225)	(258)	(245)	(238)	(225)	(265)	(225)
Prov. Taxes saved from deduction	(104)	(107)	(58)	(98)	(126)	(67)	(107)	(92)	(55)	(29)
Fed. Taxes saved from deduction	(139)	(163)	(127)	(127)	(124) *(157-33)*	(145)	(139)	(127)	(163)	(127)

	$386	$465	$391	$351	$459	$443	$383	$357	$517	$420

Assumptions {Expandable}

This table calculates the net after-tax cost of performing R&D for a corporation that is not a CCPC but earns M&P income in the various provinces. The calculations are based on the following assumptions:

1. The corporation's R&D expenditures are eligible for the 20% ITC.
2. One-half of the expenditures relate to R&D salaries and the proxy election has been made by the corporation, adding 65% of the salaries to the totals eligible for federal and certain provincial ITCs.
3. The federal and provincial tax rates are those that apply to general manufacturing corporations. The provincial tax rates used in the calculations are those in effect at the end of 2000.
4. The corporation has assets in excess of $50 million and is therefore not eligible to claim either the Ontario Innovation Tax Credit ("OITC") or the Québec incremental R&D tax credit.
5. For presentation purposes, the effects of all ITCs have been included in the current year's deduction, even though federal ITCs are actually deducted from the R&D pool in the subsequent year.
6. The amount of Ontario Superallowance claimed multiplied by the province's M&P rate ($267 x 12.5% = $33) reduces the balance of R&D expenditures available for federal purposes, thereby decreasing the R&D pool and the ITC claim. Ontario's calculations are based on the lower Superallowance rate of 25%. If the corporation is eligible to claim the higher rate of 37.5% on its expenditures, the net after tax cost would be $448. If the corporation is eligible to claim the OITC, the Ontario Business Research Institute ("OBRI") tax credit or both credits, the net after-tax costs would be as follows, based on the low and high Superallowance rates:

    - The OITC is claimed: $392 and 382, respectively;
    - The OBRI tax credit is claimed: $358 and $348, respectively;
    - Both credits are claimed: $290 and $282, respectively.

7. In calculating the net after-tax cost of R&D in Québec, the provincial ITC (the R&D Wage Tax Credit) does not reduce the amount of expenditures qualifying for the provincial R&D deduction.

British Columbia {expandable}

A refundable and/or non-refundable tax credit equal to 10% of eligible expenditures incurred in BC is available after August 31, 1999 and before September 1, 2004 to a corporation with a permanent establishment in BC.

Eligible expenditures are those that qualify for federal ITC purposes. CCPCs are eligible for the refundable credit on expenditures up to their expenditure limit (as it is defined for federal purposes). The credit is not refundable for other corporations and for a CCPC's expenditures in excess of the expenditure limit.

The credit is considered to be government assistance and reduces federal expenditures for both the R&D deduction and ITCs. The credit can only be claimed once all discretionary deductions have been claimed. Unused non-refundable credits may be carried forward 10 years and carried back 3 years. All or part of the credit can be renounced each year.

Saskatchewan {expandable}

A non-refundable tax credit equal to 15% of eligible expenditures incurred in Saskatchewan is available after March 19, 1998 to a corporation with a permanent establishment in Saskatchewan.

Eligible expenditures are those that qualify for federal ITC purposes. The credit is considered to be government assistance and reduces federal expenditures for both the R&D deduction and ITCs.

Unused credits may be carried forward 7 years and carried back 3 years, but not to taxation years ending prior to March 20, 1998. All or part of the credit can be renounced each year.

Manitoba {expandable}

A non-refundable tax credit equal to 15% of eligible expenditures incurred in Manitoba is available to a corporation with a permanent establishment in Manitoba.

Eligible expenditures are those that qualify for federal ITC purposes. The credit is considered to be government assistance and reduces federal expenditures for both the R&D deduction and ITCs.

Unused credits may be carried forward 7 years and carried back 3 years and all or part of the credit can be renounced each year.

Ontario {expandable}

A deduction equal to 35%/52.5% for CCPCs and 25%/37.5% for other corporations is available in computing Ontario net income for eligible expenditures incurred in Ontario.

Eligible expenditures are those that qualify for federal ITC purposes, and are reduced by federal ITCs and any government assistance received, which includes the OITC and the OBRI.

The higher rates are available when eligible expenditures incurred in a year exceed a three-year moving average.

Unlike the federal legislation that became effective for taxation years commencing after February 28, 2000, the super-allowance benefit will not be considered to be government assistance for Ontario purposes.

A refundable Innovation Tax Credit ("OITC") equal to 10% of eligible expenditures incurred in Ontario by a corporation with a permanent establishment in Ontario is available. Eligible expenditures are those that qualify for federal ITC purposes. 100% of current expenditures and 40% of capital expenditures qualify for the credit.

Effective for taxation years ending after May 4, 1999, the credit is available to all corporations with taxable income of less than $200,000 and taxable paid-up capital, for Ontario capital tax purposes of less than $25 million in the preceding year.

A refundable Business Research Institute Tax Credit ("OBRI") equal to 20% of eligible expenditures incurred in Ontario as part of an eligible research institute contract is also available. An eligible research institute contract is an R&D contract between a corporation with a permanent establishment in Ontario and an eligible research institute. Eligible expenditures, as defined for federal ITC purposes, are limited to $20 million per year.

Québec {expandable}

A refundable tax credit equal to 40% and 20% for R&D wages paid to employees of a permanent establishment in Québec is available to Canadian-controlled private corporations and other corporations, respectively. Also available are 50% of amounts paid to unrelated subcontractors for R&D performed by employees in Québec.

To be eligible for the 40% rate in respect of a maximum of $2 million in qualifying expenditures, the corporation must have less than $25 million in assets on an associated basis. For corporations with assets between $25 million and $50 million, the 40% rate is gradually reduced to 20%. The $2 million limit must be shared by associated corporations.

The credit may be claimed by a corporation that does not have a permanent establishment in Québec. It reduces eligible expenditures for federal purposes, but is not taxable in Québec.

Alternatively, a super-deduction equal to 460% and 230% of R&D wages paid to employees of a permanent establishment in Québec (and 50% of amounts paid to unrelated subcontractors) is available in computing Québec net income for Canadian-controlled private corporations and other corporations, respectively, in lieu of the refundable R&D wage tax credit if an election is made by the taxpayer. This election is effective for taxation years beginning after June 30, 1999.

Expenditures eligible for the R&D wage tax credit are also used to compute the super-deduction. The 460% rate applies to those expenditures eligible for the 40% credit. Any unused super-deduction cannot be carried forward.

The super deduction is grossed-up to account for the proportion of business carried on outside Québec.

Due to change announced in the 2000 federal budget relating to provincial super-deductions, the Québec government has eliminated all provincial R&D super deductions effective for taxation years beginning after February 29, 2000.

An incremental R&D tax credit or super-deduction equal to a 15% credit or 190% super-deduction is available to Canadian-controlled private corporations for incremental eligible R&D expenditures, effective for taxation years beginning after June 30, 1999. This tax credit/super-deduction was eliminated for taxation years beginning after February 29, 2000.

To be eligible, the Canadian-controlled private corporation must have less than $25 million in assets on an associated group basis. Eligible R&D expenditures include R&D wages, R&D subcontracts and contract payments to/for R&D entities and projects.

The amount of the credit or super-deduction is based on the excess of the current year's eligible R&D expenditures over the average of such expenditures for the previous three years. Rules for the 190% super-deduction election parallel those for the regular super-deduction described above.

The incremental super-deduction is also eliminated for taxation years beginning after February 29, 2000.

A refundable tax credit for contract payments to/for R&D entities and projects equal to 40% of contract and other payments to certain eligible entities is available; however, only 80% of payments to unrelated persons are eligible.

Eligible entities include universities, public research centres, and private research consortiums. Other types of eligible payments include expenditures in respect of pre-competitive research projects, environmental technology innovation projects, and catalyst projects.

New Brunswick {expandable}

A non-refundable tax credit equal to 10% of eligible expenditures incurred in New Brunswick is available to a corporation with a permanent establishment in New Brunswick.

Eligible expenditures are those that qualify for federal ITC purposes. The credit is considered to be government assistance and reduces federal expenditures for both the R&D deduction and ITCs.

Unused credits may be carried forward 7 years and carried back 3 years and the credit can be renounced each year.

Nova Scotia {expandable}

A refundable tax credit equal to 15% of eligible expenditures incurred in Nova Scotia is available to a corporation with a permanent establishment in Nova Scotia.

Eligible expenditures are those that qualify for federal ITC purposes. The credit is considered to be government assistance and reduces federal expenditures for both the R&D deduction and ITCs.

Newfoundland {expandable}

A refundable tax credit equal to 15% of eligible expenditures incurred in Newfoundland is available to a corporation with a permanent establishment in Newfoundland.

Eligible expenditures are those that qualify for federal ITC purposes. The credit is considered to be government assistance and reduces federal expenditures for both the R&D deduction and ITCs.

2. Corporations: Manufacturing & Processing (“M & P”) Tax Incentives (at July 31, 2000)

Click here for KPMG Disclaimer and Terms of Use before continuing …..

Public and Private Corporations: Provincial (“M&P”) Tax Incentives

B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.
3%	-	6%/7%	10%	-	100%/25%/20%	-	30%/15%	10%	-

British Columbia {expandable}

A non-refundable tax credit equal to 3% of purchases of qualifying M&P equipment used in BC is available for equipment purchased after March 31, 2000. Qualifying M&P equipment is that which qualifies for federal Investment Tax Credit purposes. The credit is considered to be government assistance and reduces the capital cost of the equipment for federal purposes. Unused credits may be carried forward 10 years and carried back 3 years.

A deduction from capital tax is available for property acquired for use in British Columbia primarily for the purpose of manufacturing or processing goods for sale or lease. The deduction is good for two years, and for eligible expenditures incurred after March 31, 1999, for four years. It is therefore a sort of capital tax holiday in that qualifying expenditures are not included in capital for the holiday period.

Saskatchewan {expandable}

A non-refundable tax credit equal to 6% (7% prior to March 26, 1999) of purchases of qualifying M&P equipment used in Saskatchewan is available. Qualifying M&P equipment is that which qualifies for federal Investment Tax Credit purposes. Used equipment also qualifies if it has been subject to provincial sales tax when purchased. The credit is considered to be government assistance and reduces the capital cost of the equipment for federal purposes. Unused credits may be carried forward 7 years and carried back 3 years.

Manitoba {expandable}

A non-refundable tax credit equal to 10% of purchases of qualifying M&P equipment used in Manitoba is available for equipment purchased prior to July 1, 2003. Qualifying M&P equipment is that which qualifies for federal Investment Tax Credit purposes. The credit is considered to be government assistance and reduces the capital cost of the equipment for federal purposes. Unused credits may be carried forward 7 years and carried back 3 years.

Québec {expandable}

100% of the capital cost of equipment is allowed in computing Québec net income for purchase of qualifying M&P and other equipment used in Québec, as well as intangible assets acquired as part of a technology transfer. A two-year deduction is allowed in computing paid-up capital for capital tax purposes.

Qualifying M&P equipment is that which would otherwise be included in classes 39 and 43, as well as computer processing equipment and associated systems software that would otherwise be included in classes 10 and 40. There is no half-year rule applicable to this new class, and the available-for-use rules do not apply. Each qualified property is included in a separate class 12. The equipment must be used mainly to earn business income, must not have been used before its acquisition, must be used within a reasonable period after its acquisition, and must be used in Québec for a minimum of 730 days following its acquisition.

A supplementary deduction of 25% of the capital cost allowance claimed for qualifying equipment is also allowed in computing Québec net income for purchases of qualifying M&P and other equipment used in Québec over and above the 100% deduction outlined above. To be eligible for this deduction, the equipment must be acquired prior to April 1, 2005.

An additional deduction of 20% of the capital cost allowance claimed for qualifying equipment is allowed in computing Quebec net income for purchases of qualifying M&P and other equipment used in Quebec over and above the 100% deduction outlined above. The additional deduction applies to taxpayers who carry on part of their business outside the province, prorated by their provincial allocation percentage.

Nova Scotia {expandable}

A non-refundable tax credit equal to 30% (15% effective January 1, 2001) of purchases of qualifying M&P equipment used in Nova Scotia is available for equipment purchased prior to January 1, 2003. Qualifying M&P equipment is that which qualifies for federal Investment Tax Credit purposes. The credit is considered to be government assistance and reduces the capital cost of the equipment for federal purposes. Unused credits may be carried forward 7 years and carried back 3 years.

Prince Edward Island {expandable}

A non-refundable tax credit equal to 10% of purchases of qualifying M&P equipment used in Prince Edward Island is available. Qualifying M&P equipment is that which qualifies for federal Investment Tax Credit purposes. The credit is considered to be government assistance and reduces the capital cost of the equipment for federal purposes. Unused credits may be carried forward 7 years and carried back 3 years.

3. Individual Investors: Labour-Sponsored Venture Capital Fund Tax Credit (at July 31, 2000)

Click here for KPMG Disclaimer and Terms of Use before continuing ….

Labour-sponsored venture capital corporations (LSVCCs) are federally or provincially registered and managed by some form of labour association or employee group. Funds raised by LSVCCs must be invested in active small and medium-sized businesses.

The *Income Tax Act* provides for a federal tax credit of up to 15 percent of the net cost of shares acquired in a prescribed LSVCC. This tax credit is available to an individual, other than a trust, up to a maximum of $750 per year ($5,000 x 15%). The credit is available if the individual acquires the LSVCC share personally or through an RRSP under which the individual or his or her spouse is the annuitant. The provinces (excluding Alberta and Newfoundland) offer similar credits. The federal credit is available for national LSVCCs, and a matching credit is available for prescribed provincially registered LSVCCs. Some provincial programs provide credits for national as well as provincially registered LSVCCs.

<u>Example</u>

	B.C.	**Alta.**	**Sask.**	**Man.**	**Ont.**	**Que.**	**N.B.**	**N.S.**	**P.E.I.**	**Nfld.**
Investment cost	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Federal credit	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Provincial credit	(150)	-	(150)	(150)	(150)	(150)	(150)	(150)	(150)	-
After tax cost (pre-RRSP contribution)	**$700**	**$850**	**$700**	**$700**	**$700**	**$700**	**$700**	**$700**	**$700**	**$850**
Highest combine	51.3%	43.7%	49.7%	48.1%	47.9%	50.7%	48.8%	48.8%	48.8%	51.3%

d federal and provincial marginal tax rate (2000)										
Tax savings where share purchased through an RRSP	(513)	(437)	(497)	(481)	(479)	(507)	(488)	(488)	(488)	(513)
After tax cost	**$187**	**$413**	**$203**	**$219**	**$221**	**$193**	**$212**	**$212**	**$212**	**$337**

Assumptions {Expandable}

This table calculates the net after-tax cost of investing in a labour-sponsored venture capital corporation. The calculations are based on the following assumptions:

1. The individual is in the highest marginal tax bracket under federal and provincial legislation.
2. The individual is eligible for both federal and provincial credits.

3. Individual Investors: Flow-Through Shares (exploration & development)

(at July 31, 2000)

Click here for KPMG Disclaimer and Terms of Use before continuing ….

Peculiar to the resource industry, Canadian tax legislation provides for the special concept of 'flow through shares' which allow resource expenditures incurred by a company to be deducted at the shareholder level.

Specifically, the corporation incurs expenditures using funds provided by the shareholder, renounces the expenditures so that they are instead deducted by the shareholder, and the tax cost of the shares to the shareholder becomes nil. There are no restrictions as to the number of shareholders nor a requirement that they be corporations.

Example

	B.C.	**Alta.**	**Sask.**	**Man.**	**Ont.**	**Que.**	**N.B.**	**N.S.**	**P.E.I.**	**Nfld.**
Investment cost	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000
Highest combined federal and provincial	51.3%	43.7%	49.7%	48.1%	47.9%	50.7%	48.8%	48.8%	48.8%	51.3%

marginal tax rate (2000)										
Flow through deduction	(513)	(437)	(497)	(481)	(479)	(507)	(488)	(488)	(488)	(513)
After tax cost	**$487**	**$563**	**$503**	**$519**	**$521**	**$493**	**$512**	**$512**	**$512**	**$487**

V. CDNX CONTRIBUTION: A STARTING POINT FOR YOUR RESEARCH (at November 1, 2000)

Click here for CDNX 'Legal – Terms of Use' before continuing …

1. Additional Federal Government Tax Credit Programs for Corporations

Film or Video Production Tax Credits

- 25% of qualified labour expenditure for producing Canadian film or video;
- maximum of 48% of cost of production at the end of the year net of assistance;
- corporation must be a CCPC, permanently established in Canada and carry on a business that is primarily film or video production, and must not be labour-sponsored venture capital corporations, tax-exempt corporations or corporations controlled by one or more tax-exempt people;
- refundable;
- co-productions with foreign countries are eligible if made under a treaty;
- administered by Canadian Audio-Visual Certification Office (CAVCO) and Revenue Canada.

Film or Video Production Services Tax Credit

- 11% of qualified Canadian labour expenditures, net of any assistance;
- CCPC production corporations permanently established in Canada, carrying on business that is primarily film or video production or production services and that owns copyright or has contracted directly with copyright owner for it, and must not be labour-sponsored venture capital corporations, tax-exempt corporations or corporations controlled by one or more tax-exempt people;
- cost minimums, genre requirements, must get certificate;
- cannot claim both the production tax credit and the production services tax credit.

2. Additional Federal Government Tax Credits for Individual Investors

No additional federal government tax credit programs for individual investors have been identified.

3. Additional Provincial Tax Credit Programs – By Province

(a) British Columbia

Recent B.C. efforts in tax policy reform have been focused in the high tech sector. The November 1999 paper, *A Strategy for Growth*, resulted in the adoption of a 10% SR & ED Tax Credit for CCPCs, and in several other tax rate, capital and sales tax reforms.

(i) For Corporations

Film and Television Tax Credits

- for public and private B.C. controlled corporations engaged in film and television production in B.C. and meeting certain B.C. content requirements. There are many additional requirements around principal photography, citizenship of producer and others involved, post-production work and other aspects. Legislation must be read carefully;
- until 2003;
- 20% basic credit of qualified B.C. labour expenditure for the year;
- 12.5% regional credit of qualified B.C. labour expenditure for year;
- lesser of 30% of amounts paid to trainees or 3% of B.C. labour expenditure for year;
- refundable.

Mining Exploration Tax Credit Program

- 20% of qualified mining exploration expense less the amount of government assistance received or receivable;
- no limit on claims;
- available to public or private corporations;
- refundable.

(ii) For Investors

Community Venture Capital Program

- created July 1999;
- 30% tax credit for investors;
- small businesses outside Lower Mainland and Victoria;
- expected to raise $12 million in 2000;
- available for investments in public and private corporations.

Equity Capital Program

- created in 1985;
- 30% tax credit for investors;
- raised $21 million in 1999;
- must invest in a "registered venture capital company" ("VCC");
- VCC then invests in a B.C. Eligible Small Business ("ESB")
- ESBs must meet size, employee and location tests;
- 80% of VCC funds must be invested in ESBs;
- ESBs must be carrying on business in manufacturing, research and development, tourism, aquaculture, film or publishing;
- four-year carry forward for unused amounts for both individual and corporate investors
- individuals may claim up to $60,000 in tax credits (total combined) in one year;
- administered by Ministry of Small Business and Tourism;
- to 1996, 81% of VCCs invested in only one ESB;
- available for investments in public or private corporations.

Employee Share Ownership Program

- for employee investments in shares of small to medium-sized businesses;
- credit is provided against provincial income tax;
- available for investments in public or private corporations.

(b) Alberta

In 1997, Alberta identified that it was falling behind the rest of Canada and the world in its innovation capacity – a serious concern for the government. The government has now set a goal of moving innovation-based business from a 7% share to a 25% share of the economy by 2020. In particular, the government wants to stimulate R & D activity to $2 billion by 2010.

Recent tax reforms include bringing the corporate tax rate down for all corporations but even more so for small business, and increasing the small business deduction treatment limit to $400,000 from $200,000.

(i) For Corporations

Alberta Royalty Tax Credit

- for public and private corporations engaged in oil and gas production and paying Alberta Crown royalties as a result of oil and gas production activities;
- complex calculations of interplay between Crown royalty shelter and royalties payable, against tax credit calculations that are very specific.

(ii) For Investors

- No investment tax credits have been identified.

(c) Saskatchewan

(i) For Corporations

Film and Video Production Tax Credit

- 35% of total of wages of all Saskatchewan labour and deemed labour for Saskatchewan productions and co-productions (with an extra 5% rural bonus for filming outside Regina and Saskatoon);
- limit of no more than 50% of total production costs;
- non-refundable;
- for Saskatchewan public and private corporations paying at least 25% labour expenditures to Saskatchewan people.

Oil and Gas Royalty Tax Credit

- to offset up to 30% of approved industry costs in field pilot projects in oil and gas research;
- available to public and private corporations.

(ii) For Investors

No additional tax credit programs have been identified.

(d) Manitoba

(i) For Corporations

Manitoba Film and Video Production Tax Credit

- available until 2002;
- 100% refundable;
- lesser of 22.5% of total production costs and 35% of total eligible labour expenditures, including Manitoba residents or deemed residents (for purposes of technical production crew members when there is no other locally available labour);
- permanent establishment in Manitoba and at least 25% paid to Manitoba residents;
- asset cap of $50 million;
- for Canadian public and private corporations.

(iii) For Investors

Manitoba Equity Tax Credit – PROPOSED

- 5% per year for up to 3 years to maximum of $1500;
- to encourage purchase of equity securities listed on the Winnipeg Stock Exchange;
- unclear what status of this initiative is now.

(e) Ontario

(i) For Corporations

Ontario Interactive Digital Media Tax Credit

- 20% refundable tax credit for eligible labour expenditures on activities in Ontario to create original interactive digital media products;
- recently extended to apply to up to $100,000 of marketing and distribution costs;
- for public and private corporations with permanent establishments in Ontario.

Ontario Production Services Tax Credit

- 11% for foreign-based or domestic public or private corporations with permanent establishments in Ontario, for eligible labour expenditures;
- refundable.

Ontario Film and Television Tax Credit

- 20% of qualified labour expenditures for foreign-based or domestic corporations with permanent establishments in Ontario;
- available to public or private corporations;
- refundable.

Ontario Book Publishing Tax Credit

- refundable per publication tax credit of lesser of $10,000 or 30% of the qualifying expenditures incurred in publishing a literary work;
- available only to CCPCs whose business is primarily carried on through a permanent establishment in Ontario;
- for first time Canadian authors, qualifying expenditures are 100% of pre-press costs and 50% of production costs;
- non-arm's length provisions apply.

Ontario Sound Recording Tax Credit

- 20% refundable tax credit available to CCPCs carrying on a sound recording business at least 24 months in advance of applying, with more than 50% of their taxable income allocated to Ontario on eligible expenditures incurred I the production of eligible Canadian sound recordings by emerging Canadian artists or groups;

Ontario Computer Animation and Special Effects Tax Credit

- 20% refundable tax credit on eligible labour expenditures incurred by public or private corporations with a permanent establishment in Ontario and carrying out computer and special effects activities for television or film productions;
- limit of 48% of total computer animation and special effects production costs;
- maximum of $500,000 per year for an associated group of corporations.

(ii) For Investors

Small Business Investment Tax Credit for Institutions

- 75% tax credit for "patient" (venture) capital investments of $50,000 or less in small businesses;
- 4% tax credit for loans under prime of $50,000 or less to small businesses;
- 40% tax credit for investing in Community Small Business Investment Funds;
- appears to be for investments in public and private corporations.

(f) Québec

At present, the tax system favours those companies that invest to increase production capacity and upgrade technology. In addition to tax credits and deductions, accelerated (125%) depreciation is available for assets used for the manufacturing and processing of goods, general-purpose electronic data processing equipment, system software, equipment for processing foreign ore, certain intangible assets, fiber-optic cables, coaxial cables, opto-electronic and electronic equipment associated with them in certain circumstances.

(i) For Corporations

On-the-Job training Tax Credit

- refundable;
- apprentices enrolled in the Qualification Plan or new Apprenticeship Plan, full-time secondary school students in vocational training, college students in technical training, undergraduate students who must work 140 hours over length of program and several other categories of students;
- 40% of eligible training expenses for all corporations;
- 20% of eligible training expenses for unincorporated businesses;
- eligible training expenses include salaries/wages of students and their supervisors;
- maximum $200 per week per trainee;
- maximum 10 hours supervision per week;
- $250 per week per trainee and 20 hours supervision under new secondary school programs devoted to non-specialized trades, raining as part of an ISPJ program for adult students enrolled in socio-vocational entry services and for apprentices enrolled in the Apprenticeship Plan;
- taxable at federal level, but not at provincial level;
- available to public and private corporations.

Refundable Tax Credit for Design

- 20% tax credit (up to 40% for SMBs with less than $50 million in assets, including associated corporations) for eligible industrial or fashion design expenses for a corporation that holds a visa from the MIC(?);
- refundable;
- taxable at federal level, but not at provincial level;
- for public and private corporations.

Refundable Tax Credit for Technological Adaptation Services

- 40% of eligible expenditures;
- refundable;
- to support small businesses in gathering and processing strategic information and in cooperative research and innovation efforts;
- business watch centres, liaison and transfer centre or college centre for technology transfer;
- for public or private corporations.

Refundable Tax Credit to Encourage the Adoption of E-commerce Solutions

- 40% of eligible expenditures in course of implementing e-commerce solutions;
- refundable;
- maximum of $40,000;
- till April 1, 2002;

- for SMBs (corporations with total assets of less than $12 million or gross income less than $25 million, taking into account all associated corporations) that pay more than 50% of salaries and wages to employees of establishments in Québec;
- transactional web site, limited-access secure and confidential public network (extranet) and business-to-business transaction systems as part of a private network are eligible, so long as they include a transaction mode by secure computerized channel which allows the purchase or sales of goods or services;
- for public and private corporations.

Information Technology Development Centres (ITDCs) – Tax Holidays and Tax Credits

- a group of corporations operating in certain buildings in emerging sectors, like the information highway or multimedia;
- Montréal, Hull, Laval, Sherbrooke;
- Corporations must commit to allocate a substantial portion of activities to R & D of high value-added products or services, develop new expertise and innovative projects and generate significant economic spin-offs in Québec;
- Available to subsidiaries of foreign corporations investing in Québec;
- 5-year tax holiday (income tax, capital tax, employer contributions to health service fund);
- refundable tax credits;
- 40% of wages to maximum of $15,000 per year paid to eligible employees or specialists, foreign or not, until 2010;
- 40% of capital cost of specialized equipment acquired within first three years of the tax holiday or 40% of rents on leased equipment during entire 5-year tax holiday;
- can claim refundable tax credit for Québec film and television production or the refundable tax credit for film production services relating to labour expenditures in the field of computer animation and special effects (see later discussion);
- loan guarantee program available through Investissement Québec to finance the tax credits the corporation is entitled to claim for a taxation year;
- for public and private corporations.

New Economy Centres (CNEs) – Carrefours de la nouvelle économie Tax Credit

- group of businesses carried on within available area granted to each region of Québec;
- Minister of Finance designates buildings that can house CNEs after regional consultation;
- Can claim tax relief for CNEs or, if qualify, ITDCs;
- 40%, to maximum of $15,000 per eligible employee per year, for eligible activities related to the knowledge-based economy;
- available until 2010;

- refundable;
- for public and private corporations.

Cité du multimédia Tax Credit

- located near Old Port of Montréal;
- 40% tax credit for eligible wages to maximum of $37,500 per year paid to eligible employees to carry out multimedia services or production activity or activity related to information technologies in the Cité du multimédia;
- limited to $15,000 per employee per year and total tax assistance must not exceed $25,000 per employee per year;
- refundable;
- available until 2010;
- available to public and private corporations.

Centre national des nouvelles technologies de Québec (CNNTQ) Tax Credit

- similar assistance to the Cité du multimédia assistance, but particularly as relates to applications in the arts and culture sectors;
- 40% for wages paid to eligible employees by corporations in designated premises of the CNNTQ, limited to $15,000 per employee to a maximum of $37,500 annually;
- refundable;
- available until 2010;
- for public and private corporations.

Cité de l'optique Tax Credit

- corporations located in Québec City region;
- 40% tax credit for increase in payroll attributable to employees working in production or commercialization activities connected to manufacturing and commercializing of apparatus or equipment in optics, photonics or laser sector;
- refundable;
- corporations must obtain certificate of eligibility from Investissement Québec;
- available until 2003;
- for public and private corporations.

Cité du commerce électronique Tax Credit

- located in downtown Montréal;
- corporations in Cité du commerce électronique obtain certificates of eligibility from the Minister of Finance;

- 25% of eligible salaries paid to employees for development and supplying of products and services relating to e-business and operation of e-business solutions;
- limit of $10,000 per employee annually;
- refundable;
- available until 2010;
- may also claim refundable tax credit to encourage e-commerce solutions;
- for public and private corporations.

Vallée d'aluminium Tax Credit

- corporations located in the Saguenay-Lac-Saint-Jean region;
- 40% tax credit for increase in payroll attributable to employees working in production or commercialization activities connected to manufacturing or processing of aluminum into high value-added finished or semi-finished goods that have undergone primary processing, or in field of manufacturing of specialized equipment for aluminum production or aluminum processing business;
- must obtain certificate of eligibility from Investissement Québec;
- wages paid by associated corporations will be taken into account in calculating amount eligible;
- available until 2003;
- for public and private corporations.

Technopole Angus Tax Credit

- 40% of increase in payroll attributable to employees working for corporations located on site of former Angus Yards (Montréal) in production or commercialization activities related to manufacturing, recycling business in the manufacturing sector or business in the environmental sector;
- corporations must obtain certificate of eligibility from Investissement Québec;
- wages paid by associated corporations are taken into account;
- available until 2003;
- for public and private corporations.

International Financial Centres Tax Credits

- activities must relate almost exclusively to eligible international transactions, as determined by tax regulation;
- 40% refundable tax credit of eligible wages paid to an employee specialized in international transactions;
- 50% refundable tax credit for eligible solicitation expenditures incurred in the taxation year and the two preceding taxation years to maximum of $75,000 per year;
- for public and private corporations.

Investment Funds Tax Credit

- 50% refundable tax credit for eligible start-up expenditures to maximum amount of $250,000 per eligible fund;
- must obtain certificate from Minister of Finance, carry on business in Québec and have an establishment there;
- for public and private corporations.

Film and Television Production Tax Credits

- 33 1/3% (55.5% outside Montréal) refundable tax credit for manpower expenditures incurred in production of programs for children, documentaries, fictional works and some variety shows and television magazines, so long as do not exceed 45% of production costs and limited to ceiling of $2.5 million per production;
- 45% (55.5% outside Montréal) refundable tax credit for French-language feature films as well as co-produced documentaries under 75 minutes long, so long as do not exceed 45% of production costs and limited to ceiling of $2.5 million per production;
- for public and private corporations.

Dubbing Activities Tax Credit

- 33 1/3% refundable tax credit for eligible expenditures related to certain services inherent to the dubbing process that are generally provided by self-employed workers or sub-contractors, such as performance of actors, adaptation, detection, calligraphy/grid/typing and stage management;
- rate of 30% for production of film titles;
- rate of 20% for optical transfer services;
- in all cases, must not exceed 40.5% of the consideration paid for the execution of the dubbing contract;
- must obtain certificate of eligibility from SODEC;
- for public and private corporations.

Film or Television Production Services Tax Credit

- 11% refundable tax credit for labour expenditures incurred as part of the shooting of a foreign production or a production that does not satisfy the Québec content criteria giving rise to the tax credit for film or television production;
- must obtain certificate from SODEC confirming eligibility;
- for public and private corporations.

Special Effects and Computer Animation Tax Credit

- enhanced tax credit rates for film or television productions for labour expenditures relating to the creation of special effects and computer

animation from 33 1/3% to 45% for television production and from 11% to 31% for production services;
- for public and private corporations.

Multimedia Titles Tax Credit

- 40% refundable tax credit (50% if title is available in French) for eligible labour expenditures by corporations focused exclusively or almost exclusively on production of multimedia titles and, as the case may be, related R & D if at least 75% of the multimedia titles produced or of gross income for year consists of or is derived from multimedia titles designed for broad commercialization;
- if corporation not focused exclusively or almost exclusively on production of multimedia titles, refundable tax credit of 40% on eligible labour expenditures incurred in particular multimedia productions produced for broad commercialization, (50% if title available in French) and 35% refundable tax credit for other multimedia productions;
- for public and private corporations.

Sound Recordings Tax Credit

- 33 1/3% tax credit for labour expenditures incurred for production of sound recording consisting of at least 60% musical content and meeting certain Québec content criteria;
- must obtain certificate from SODEC;
- may not exceed 45% of the eligible production expenses of the sound recording and limited to $50,000 per production;
- for public and private corporations.

Musical Productions Tax Credit

- 33 1/3% of labour expenditures incurred for musical production with at least 75% of show consisting of songs or instrumental music and satisfying Québec content criteria;
- must obtain certificate from SODEC;
- must not exceed 45% of eligible production expenses of the musical production and limited to $300,000 per production;
- for public and private corporations.

Book Publishing Tax Credits

- 40% refundable tax credit for labour expenditures on preparatory costs of the book (maximum 50% of these costs) to $500,000 per book limit;
- 30% refundable tax credit for labour expenditures on eligible printing costs of the book (maximum 33 1/3% of these costs) to $500,000 per book limit;
- for public or private corporations.

Marine Construction Tax Credit

- 50% refundable tax credit for eligible expenditures on construction or conversion costs of an eligible ship (must not exceed 20% of the construction or conversion costs);
- for public or private corporations.

Clothing and Footwear Industry

- 20% refundable tax credit for increase in payroll attributable to production employees in clothing and footwear industry;
- available through 2001;
- for public and private corporations.

Montréal Foreign Trade Zone at Mirabel

- 40% refundable tax credit on fees paid to customs brokers to a maximum of $30,000 per year for corporations carrying out at least 90% of their international logistics, aircraft maintenance and repair, supplemental vocational training in aviation or light manufacturing at the Mirabel Airport;
- must keep separate accounting records and not simply move their activity already carried on elsewhere in Québec;
- payroll must reach at least $400,000;
- for public and private corporations.

(ii) For Investors

QBICs and Investissement Québec

- Québec Business Investment Companies ("QBICs") register with Investissement Québec and, in turn, invest in SMBs that are CCPCs – not available to investors in public companies;
- deduction equal to 150% of investment, up to 30% of net annual income;
- five-year carry-forward;
- fully eligible for RRSPs and RRIFs.

Québec Stock Savings Plan

- Restricted to corporations with assets between $2 million and $350 million;
- Unclear whether available to investors in public and private corporations.

(g) **New Brunswick**

(i) **For Corporations**

Film New Brunswick Labour Incentive Tax Credit

- up to 40% of wages paid to New Brunswick residents, to a maximum of 50% of total production costs;
- principal business the production of films, with permanent establishment in New Brunswick;
- available for public or private corporations;
- limited to $1 million per production and $2 million per group of associated corporations per year.

(ii) **For Investors**

No additional tax credit programs available.

(h) **Nova Scotia**

(i) **For Corporations**

Investment Tax Credit

- 30% (or 15% starting next year) of capital costs (less government assistance) for new manufacturing and processing plant and equipment;
- seven-year carry-forward, three-year carry-back;
- available until December 31, 2002;
- unclear whether for both public and private corporations.

Nova Scotia Film Industry Tax Credit

- lesser of 30% of eligible Nova Scotia labour costs or 15% of production costs or, in rural Nova Scotia, 35% of labour costs or 17.5% of total production costs - refundable;
- for public or private corporations permanently established in Nova Scotia with at least 25% salaries and wages paid to Nova Scotia residents.

ISO 9000 and 14000 Tax Credits

- 25% non-refundable tax credit for eligible expenditures incurred in seeking ISO 9000 or 14000 certification;
- unclear whether for both public and private corporations.

(ii) **For Investors**

No additional tax credit programs available.

(i) Prince Edward Island

(i) For Corporations

No additional tax credit programs available.

(ii) For Investors

No additional tax credit programs available.

(j) Newfoundland

(i) For Corporations

No additional tax credit programs available.

(ii) For Investors

No additional tax credit programs available.

V. Conclusion

A review of tax credit programs available in Canada demonstrates that Québec has the largest number and variety of tax credit programs to stimulate business development. The tax credit programs offered in Québec do not discriminate against public corporations. Many of those programs are recent developments aimed at stimulating new economy growth.

Alberta's tax policy approach is completely opposite to the Québec approach. In Alberta, low corporate and personal tax rates, without complicated incentive planning, are relied upon to stimulate new economy growth.

Some tax credit programs, particularly the SR & ED program, discriminate against public corporations and their investors.

<u>Reminder to Readers:</u>

CDNX provides no assurances whatsoever about the accuracy or currency of the information it contributed. Readers interested in learning more should contact government ministries or agencies responsible for administering tax credit programs directly. Readers should NOT rely on the tax credit information provided by CDNX in this paper in making investment or business planning decisions, or for any other reason.