

# PROGRESSIVE TAX REBATE PROGRAM

SHARE PURCHASE TAX CREDIT

USER GUIDE →



*Prince  
Edward  
Island*  
CANADA

# Share Purchase Tax Credit User Guide

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## 1. Program Summary

The Share Purchase Tax Credit (SPTC) is intended to encourage Prince Edward Islanders to invest in high-value, export-oriented Island companies. An investment in a Prince Edward Island company is an investment in the future economic strength of the province.

The program provides for a rebate, of personal income tax, equal to 35% of qualified investments in eligible Island companies. The maximum tax rebate an individual may claim is \$35,000 in any taxation year. The company applies for the Share Purchase Tax Credit Certificate; on receipt of payment for the share, the company turns the certificate over to the investor, who is entitled to the rebate against income taxes paid.

## 2. Eligible Investors

Individuals are considered "eligible investors" and are, therefore, eligible to apply for a Share Purchase Tax Credit if they are 19 years of age or older and resident in Prince Edward Island when the investment is made.

## 3. Eligible Corporations

"Eligible corporations" are private corporations which:

- maintain a permanent establishment in Prince Edward Island through which the corporation carries on an active business;
- comply with all the provisions of the Prince Edward Island *Securities Act*;
- pay to employees resident in Prince Edward Island 75% or more of the total salary or wages paid by the corporation in the year to its employees; and
- within a strategic industrial sector, produce products or services for sale beyond the borders of Prince Edward Island. Publicly traded companies cannot be eligible corporations.
- Other conditions when evaluating an applicant's request for assistance will include:
  - Potential for long-term viability;
  - Qualifications and track records of managers;
  - Cost benefit to the province;
  - Availability of program funds;
  - Import substitution;
  - Environmental impact;
  - Employment creation;
  - Level of assistance from other government programs offered or available.

## 4. Strategic Industrial Sectors

Strategic industrial sectors in Prince Edward Island include:

- export-oriented manufacturing and processing,
- the life sciences,
- interactive, information and communication technologies,
- renewable energy,
- aerospace.

Financial services is identified as a strategic industrial sector with certain of the other tax rebates which comprise the Progressive Tax Rebate Program. Financial Services is not, at this time, identified as a strategic industrial sector for the application of the Share Purchase Tax Credit. Other strategic industrial sectors may be added by regulation over time and will be included in this guide. Definitions of identified strategic industrial sectors are maintained in the offices of PEI Business Development Inc. and Technology PEI.

## 5. Qualified Investment

"Qualified share" of an individual means a share in the capital stock of an eligible corporation, which has been purchased exclusively with money, and:

- the share was not previously owned by any person,
- after acquiring the share, the individual, and/or any related parties, do not own securities of the corporation which have voting rights representing more than 49 percent of all voting rights issued,
- the terms of the share provide that retraction and redemption privileges, if any, may not be exercised until after five years have elapsed from the date the share was issued by the corporation to the individual,
- the corporation does not provide any form of financial assistance to the individual to enable the individual to acquire the share,
- the individual is dealing at arm's length with the corporation immediately after the acquisition of the share,
- an opinion, from a person entitled to practice law in Prince Edward Island, has been provided to confirm that the issuance of the share is in accordance with PEI securities laws.

## 6. Related Parties

"Related parties" has the meaning assigned to it under section 251 of the Income Tax Act of Canada. As well as "employees of the corporation who do not deal arm's length with the corporation," the definition includes such persons as parties related through blood relationship, marriage, common law, partnership and adoption. Some common examples include persons who control the corporation, "controlling shareholders", and the spouse, child, grandchild, parent, brother or sister of the controlling shareholders.

## 7. Roll-Over Restriction

In addition to the paragraph above ("Qualified Share"), an investment is not qualified if, in the twelve months before or after the date the qualified share is issued,

- the company has redeemed, acquired or canceled a share of its capital stock that was owned at any time in the period by the individual in respect of such a share, or
- paid an amount on a reduction of the paid up capital in respect of such a share, or
- the company has repaid, or repays, an amount on account of the principal amount of a debt obligation that was owned by the individual at any time in the period.

## 8. Use of Funds

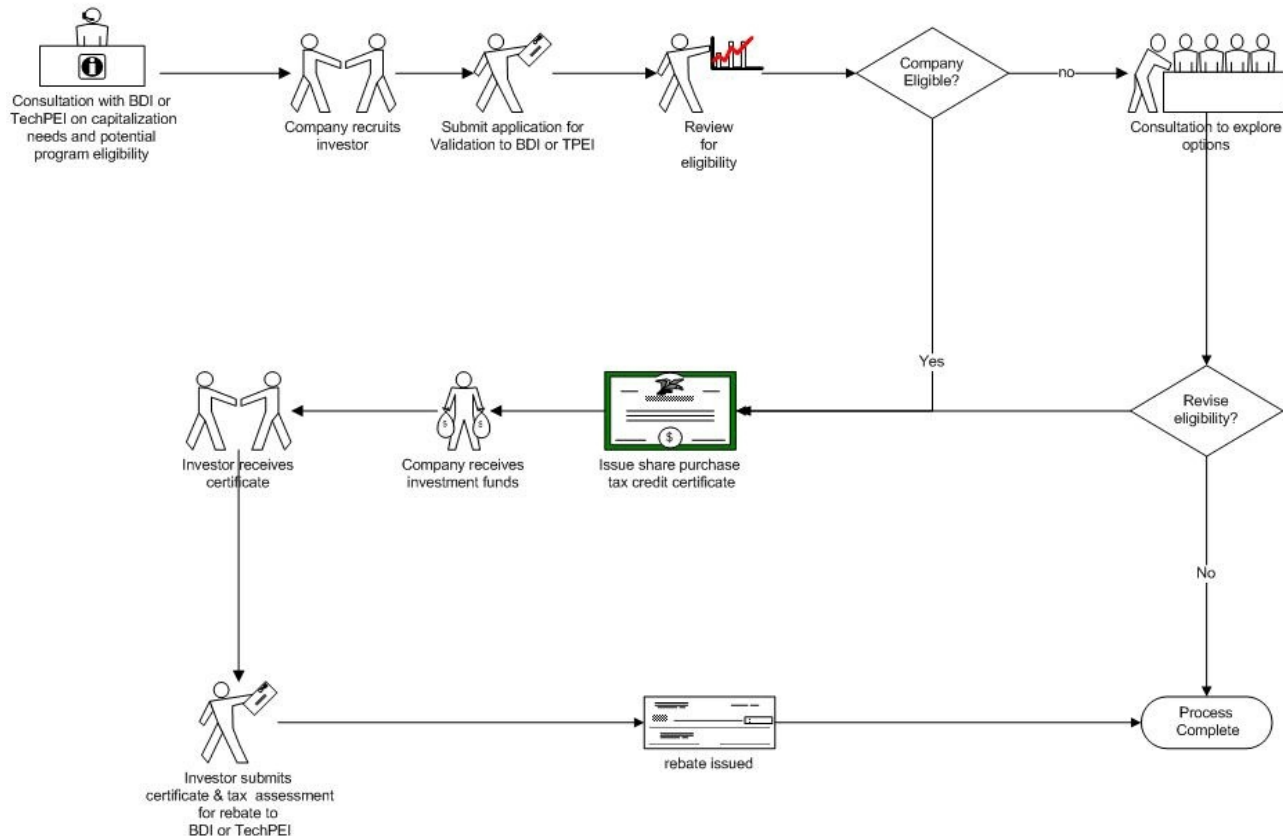
A company which raises funds with the consideration of a Share Purchase Tax Credit is expected to use those funds to start-up or expand an active business carried on by the corporation in Prince Edward Island. The company may not use the funds for any of the following purposes:

- lending,
- purchasing or redeeming shares,
- paying dividends,
- repaying debt to a Director, shareholder or officer of the business or an associate of a Director, shareholder or officer of the eligible business,
- the redemption of shares or the funding of the purchase of all or substantially all of the assets of a previously existing proprietorship, partnership, joint venture, trust or company, except where that firm is in receivership or bankruptcy,
- the purchase of assets or services by the eligible business for a price greater than fair market value.

### 9. Process Summary

A company which purports to be an eligible corporation as defined in the Act may make an application to PEI Business Development Inc. or Technology PEI for a Share Purchase Tax Credit certificate. The department will review the application and, if it is found to meet the criteria, will issue a Share Purchase Tax Credit certificate to the company. The certificate will set out the cost of the qualified share, the name of the eligible corporation and the name of the eligible investor as well as certain other information.

Share Purchase Tax Credit Process



The company will deliver the certificate to the individual upon receipt of compensation for the share, at which time the company and the investor are required to provide to government a signed receipt to confirm that the transaction has occurred. To receive the tax rebate, the investor will submit the Share Purchase Tax Credit certificate with the investor’s income tax return and notice of assessment for the applicable taxation year to PEI Business Development Inc. or Technology PEI.

### 10. Calculating the Share Purchase Tax Credit

The Share Purchase Tax Credit is a rebate of 35% of the eligible investment according to the criteria for the issuance of a Share Purchase Tax Credit Certificate. The maximum annual SPTC Rebate is \$35,000, however, the amount of the rebate will not exceed the total PEI income tax payable by the individual for the taxation year.

## 11. Application for a Share Purchase Tax Credit Certificate

A company may apply for a Share Purchase Tax Credit Certificate in respect of one or more qualified shares. Applications will be made on the appropriate form, a copy of which is provided in the Appendix of this Guide. The application will include:

- a copy of the corporation's financial statements for its last taxation year, if any;
- a copy of the corporation's income tax returns for its last taxation year, if any;
- a copy of the corporation's articles or other constating documents;
- a list of directors and officers;
- a list containing the names of each individual to whom the corporation intends to issue a share and the social insurance number, occupation, and residential address of each such individual;
- a copy of the opinion, from a person entitled to practice law in Prince Edward Island, confirming that the issuance of the share is in accordance with PEI security laws;
- a business plan of the corporation containing a complete description of the corporation's activities, estimates of anticipated receipts from qualified as well as investments which are not-qualified, and a description of the intended use of the funds raised from the issuance of the identified investments

## 12. Approval and Issuance of Share Purchase Tax Credit Certificate

On receipt, the application for a Share Purchase Tax Credit Certificate will be reviewed. If the necessary conditions are found to apply, a certificate will be issued. If issued, the Certificate will provide the following information:

- a description of the qualified share to which the Share Purchase Tax Credit certificate applies;
- the cost of the qualified share to the eligible investor;
- the name of the eligible corporation;
- the name of the eligible investor; and
- the date on which the Share Purchase Tax Credit certificate is issued.

## 13. Confirmation of Transaction

The company is required to provide to PEI Business Development Inc. or Technology PEI a certification, signed by an Officer of the Company and the investor, that the qualified share has been delivered to the investor and that the company has received payment in full. The Appendix attached is the form to be used for this purpose.

## 14. Prince Edward Island Securities Act and Securities Office

Nothing in this document takes precedent over the requirements of the *Securities Act*. Therefore, interested parties are advised to ensure that they comply with all of the requirements of the Prince Edward Island *Securities Act* before issuing or purchasing an investment.

It is to ensure compliance that eligible corporations are required to provide an opinion, for a person entitled to practice law in prince Edward island, that the issuance of the share is in accordance with PEI securities laws. Further information regarding the *Securities Act* may be obtained at the Securities Office website at [www.gov.pe.ca/securities](http://www.gov.pe.ca/securities).

## 15. Responsibility for Shares Purchased

The issuance of a Share Purchase Tax Credit Certificate with regard to a specific share or shares, or to a specific company, does not constitute an endorsement by government of the corporation issuing the shares or the value of the share purchased. The investor is at risk for his or her investment.

## 16. Registered Retirement Savings Plan Funds

A qualifying share for the purposes of the Share Purchase Tax Credit may be owned by a Registered Retirement Savings Plan if the eligible individual makes the necessary arrangements. Equally, nothing in the Act, Regulations or User Guide specifically prohibits the investment of R.R.S.P. sheltered funds for the purchase of a qualified share which would result in the issuance of a Share Purchase Tax Credit Certificate.

An individual is deemed to acquire, own or dispose of a share if a qualifying trust of the individual, which is governed by a registered retirement savings plan, acquires, owns, or disposes of the share. A corporation is deemed to issue a share to an individual if the corporation issues the share to a qualifying trust of the individual. See the Regulations for the definition of a "qualifying trust."

## 17. Revocation of Certificate

The Minister may revoke a certificate for a variety of reasons outlined in the Regulations. These include situations where the Minister is satisfied that the corporation was not eligible to have been issued the Share Purchase Tax Credit Certificate, the proper filings have not occurred, or the investment was not used as proposed, on the basis of information discovered after the issuance of the Share Purchase Tax Credit Certificate.

If a Share Purchase Tax Credit Certificate is revoked, the company may be required to repay to government the amount of the tax credit claimed by the eligible investor.

## 18. Claiming the Share Purchase Tax Credit

An eligible investor may claim the total of all Share Purchase Tax Credits acquired by an eligible investor in the taxation year, or within 60 days after the end of the taxation year, to a maximum claim of \$35,000.

The company which has been issued a Share Purchase Tax Credit Certificate will prepare and issue to the eligible investor a Share Purchase Tax Credit Certificate form. To receive the Share Purchase Tax rebate, the eligible investor will submit the Certificate to the Department of Development with a copy of their income tax return and notice of assessment for the appropriate taxation year.

## 19. Investor's Holding Period

Eligible investors are required to hold the investment for a minimum of five years. If the shares are disposed of within this five-year period, the investor may be required to repay tax rebates received in relation to these shares, plus interest.

## 20. Filing of Corporate Information

A corporation that has issued a qualifying investment in a taxation year for which it has received a Share Purchase Tax Credit certificate will file requested information annually with PEI Business Development Inc. or Technology PEI for the year in which the share was issued and for the four subsequent years. The information will be specified when the SPTC Certificate is issued.

## 21. Freedom of Information and Protection of Privacy Act

Information collected in connection with this Program is subject to, and will be treated in accordance with, the Prince Edward Island *Freedom of Information and Protection of Privacy Act*. For additional information see: [www.gov.pe.ca/foipp](http://www.gov.pe.ca/foipp).

## 22. Amalgamation with a Corporation Holding a Certificate

Where, two or more corporations amalgamate (within the meaning of subsection 87(1) of the Federal Income Tax Act) and one or more of the corporations have issued qualified share and Certificates under the Share Purchase Tax Credit Program, the new corporation may be deemed to be the same corporation as each of its predecessor corporations.

## 23. Winding-up of a Corporation Holding a Certificate

Where a subsidiary is wound up and subsection 88(1) of the Federal Income Tax Act applies, and the subsidiary have issued qualified shares and Certificates under the Share Purchase Tax Credit Program, the parent corporation may be deemed, for the purposes of this section, to be the same corporation as, and a continuation of, the subsidiary.

## 24. Summary of Timelines and Deadlines

- As with Registered Retirement Savings Plan investments, qualified shares may be purchased up to 60 days after the end of a taxation year to be claimed during the taxation year.
- The Share Purchase Tax Credit must be claimed for the taxation year during which the investment occurred.
- The qualified share must be held by the investor for five years.



## Appendix: Applications and Report

# Application for a Share Purchase Tax Credit Certificate



## Corporate Information



Corporation Name:			
Business Identification Number:			
Mailing Address:			
Strategic Industrial Sector of Primary Business Activity: Life-sciences <input type="radio"/> ITC <input type="radio"/> Renewable Energy <input type="radio"/> Export-oriented Manufacturing <input type="radio"/> Aerospace <input type="radio"/>			
Contact:	Title:	Telephone:	
Email:		Fax:	

## Investor Information

Investor's Name and Address	Social Insurance Number	Number of Shares	Type of Share	Amount Paid

## Certification (To be signed by the Secretary and one other Officer of the Company.)

On behalf of the corporation identified above, I hereby make application for a Share Purchase Tax Credit Certificate. I certify that I am an authorized officer of the applicant corporation and that the information contained in this application and its attachments is true and correct to the best of my knowledge and belief. I agree to comply with the terms stated in the User Guide, including reporting requirements.	
Secretary Name	Officer Name
Signature	Signature
Date	Date

	Return to:	Prince Edward Island Department of Development & Technology Attention: Corporate Services Division PEI Business Development Inc 94 Euston Street PO Box 910 Charlottetown, Prince Edward Island C1A 7L9 Telephone: (902) 368-6300 Fax: (902) 368-6301	

Please attach a business plan, including the intended use of the investment.

# Report of Share Sale and Purchase

## Share Purchase Tax Credit



This report is to be completed and signed by the company issuing shares qualifying for the PEI Share Purchase Tax Credit and by the purchaser of those shares for each separate transaction of shares, and must be submitted to the Prince Edward Island Department of Development & Technology after issuance of the Share Purchase Tax Credit Certificate, confirming the sale and purchase of shares subject to the Share Purchase Tax Credit.

	<b>Certificate Number</b>
<b>Corporation Name</b>	BIN
Mailing Address	Contact:
	Telephone

<b>Name of Purchaser of Shares</b>	
Social Insurance Number	Telephone
Principal Address of Purchaser of Shares	



Type of Shares	<input type="radio"/> Common	<input type="radio"/> Preferred	<input type="radio"/> Other (describe)
Number of shares sold by corporation and purchased by shareholder named above:			
Amount paid for the shares by purchaser for this purchase and sale of shares:			\$ _____
Date of sale and purchase of shares:		Date of transfer of shares:	

On behalf of the corporation, I hereby confirm, as described in the information stated above, that the corporation issued shares to the person named as the purchaser, at the price and on the date stated. I understand and agree that this transaction is made under the taxation laws and regulations of Prince Edward Island with respect to the Share Purchase Tax Credit and that the share issuance and purchase conforms with the User Guide set out for that purpose

\_\_\_\_\_  
Signature of Signing Officer of the Company Date

As purchaser, I hereby acknowledge and confirm the purchase of shares from the corporation as described in the information above, having paid for and received the shares. I understand and agree that this transaction is made under the laws and regulations of Prince Edward Island with respect to the Share Purchase Tax Credit and that the share issuance and purchase conforms with the User Guide set out for that purpose

\_\_\_\_\_  
Signature of Purchaser Of Shares Date

	Return to: Prince Edward Island Department of Development & Technology Attention: Corporate Services Division PEI Business Development Inc 94 Euston Street PO Box 910 Charlottetown, Prince Edward Island C1A 7L9 Telephone: (902) 368-6300 Fax: (902) 368-6301	
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