

The Ontario Labour Sponsored Investment Fund Program

Labour Sponsored Investment Fund Guide

For Individual Investors

Introduction

Ontario Labour Sponsored Investment Funds (LSIFs) are venture capital corporations, designed to provide alternative sources of capital to small and medium-sized Ontario businesses, to help stimulate the provincial economy and to create jobs. LSIFs offer unique investment opportunities and incentives to individual investors who purchase Class A shares of registered LSIFs.

How the Program Works

Each fund must be sponsored by an “employee organization” and must be registered with the Ministry of Finance. An “employee organization” is defined as a trade union, an association or federation of trade unions or an association or federation of worker co-operatives. The employee organization (sponsor) is entitled to elect a majority of the Board of Directors of the LSIF.

Once an LSIF is registered and its Prospectus is approved by the Ontario Securities Commission (OSC), an LSIF may issue class A shares to eligible investors. An “eligible” investor is defined as an individual and includes an RRSP trust of which the individual or spouse or common-law partner of the individual, is the annuitant.

Investment Tax Credits

Ontario tax credits may be claimed by eligible investors for investments up to \$5000 in a particular year. Tax credits issued for investments made in the first 60 days of a year, can be used to offset Ontario taxes for the year of investment or for the immediately preceding year. Tax credits issued for investments made during the rest of the year, may only be applied to Ontario taxes for the year of investment.

Amount of Tax Credits

- an eligible investor is entitled to a maximum annual Ontario tax credit of \$750 (\$5000 maximum investment x 15%). A “matching” federal tax credit is also available.
- for investors in LSIFs that qualify as Research Oriented Investment Funds (ROIFs), an additional 5% (\$250) Ontario tax credit is available. There is no federal matching of this extra credit.

Tax credits are claimed on Form **ON 428 Ontario Tax**. Unused LSIF tax credits **cannot** be carried forward to other taxation years.

Registered Retirement Savings Plans (RRSPs)

LSIF investments are RRSP eligible.

Investment Restrictions

If you purchased LSIF shares before May 7, 1996 and decide to redeem them within **five years** of the date of purchase, you will be required to repay the tax credits. This will not apply under the following conditions:

- C if the shares are transferred as a result of your death,
- C if you become disabled and permanently unfit for work, or terminally ill,
- C if you turn 65 or cease to be a resident of Canada (after a minimum two-year holding period),
- C if you request the LSIF to redeem the shares within 60 days of the date of the original purchase and you return the original tax credit certificate.

If you purchased LSIF shares after May 6, 1996 and you redeem them within **eight years** of the purchase date, you will be required to repay the tax credits. This will not apply under the following circumstances:

- C if the shares are transferred as a result of your death,
- C if you become disabled and permanently unfit for work or terminally ill,
- C if you request the LSIF to redeem the shares within 60 days of the date of the original purchase and you return the original tax credit certificate.

Investor Caution

These investments, by their nature, involve risk. The Government of Ontario does **not** guarantee the success of any investment in a LSIF. Prior to investing you should obtain and read a copy of the LSIF's prospectus.

Investment Requirements

LSIFs are required to invest 70% of capital raised from the sale of Class A shares, into "eligible" businesses. "Eligible" businesses are defined as:

- taxable Canadian corporations or partnerships that pay 50% or more of their wages and salaries to workers in Ontario;

- C companies whose gross assets do not exceed \$50 million; and
- C companies whose total payroll together with all related corporations, does not exceed 500 employees.

LSIFs are further required to:

- C invest at least 20% of the capital required to be invested, into companies with no more than \$5 million in assets and who employ no more than 50 employees; and,
- C invest no more than 15% of the capital required to be invested in publicly traded corporations.

Program Enquiries

Further information about the Labour Sponsored Investment Fund program may be obtained by contacting the Ministry of Finance.

- C Legislation Interpretation: Tax Advisory Services Branch
1-800-263-7466
- C Registration and Administration: Business Investment Plans Section
Tax Compliance and Regional Operations Branch
1-800-263-7466

Or write to:

- C The Labour Sponsored Investment Fund Program
Business Investment Plans Section
Income Tax Related Programs Branch
Ministry of Finance
33 King Street West
Oshawa, ON L1H 8H5

or visit our website <http://www.trd.fin.gov.on.ca>

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