

PROGRESSIVE TAX REBATE PROGRAM

INNOVATION AND DEVELOPMENT TAX CREDIT

USER GUIDE →



*Prince
Edward
Island*
CANADA

Innovation and Development Tax Credit User Guide

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1. Program Summary

The Innovation and Development Tax Credit is a rebate program designed to encourage the development of new products, processes and services in Prince Edward Island. The rebate, which is "refundable", is equal to 35% of 150% of eligible labour costs for approved corporations and development and commercialization projects. The 50% markup above actual labour costs provides some allowance for project materials and specialized equipment and recognizes the overheads associated with maintaining a skilled workforce in Prince Edward island, such as: recruitment costs, relocation costs, training, professional development, certification, etc..

The program involves a certificate process and is delivered by PEI Business Development Inc. and Technology PEI. Companies apply for the credit to PEI Business Development or Technology PEI. If the project is approved, a Preliminary Certificate is issued. On the successful completion of the project, and the submission of actual eligible cost information, a rebate is issued based on approved eligible expenditures to the maximum amount authorized.

2. Eligible Corporations

A corporation which is eligible to apply for the Innovation and Development Tax Credit ("eligible corporation") has a permanent establishment in Prince Edward Island from which it carries on business within a strategic industrial sector and from which it undertakes the development or commercialization of new or innovative products, processes or services relating to that strategic industrial sector.

3. Defining Development and Commercialization

A development activity refers to the creation of, or improvements to, a concept, product, process or service with a view to practical application or commercialization. Commercialization is the activity whereby a concept, product, process or service evolves from the proof-of-concept stage to internal use or production for sale.

4. Defining "New or Innovative Product, Service and Process"

A new product, service or process is one not currently in production or use in Prince Edward Island. A product, process or service may be considered to be "new" whether or not it involves unique intellectual property, but in all cases where unique intellectual property is involved.

5. Strategic Industrial Sectors

"Strategic industrial sector" means a sector of the Prince Edward Island economy relating to:

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

Other strategic 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.

6. Eligible Projects

For a project to be eligible for approval, application must be made to PEI Business Development Inc. or Technology PEI prior to the commencement of the project. Initiatives must represent an incremental growth opportunity, in terms of revenue generation and/or employment growth, for the eligible corporation.

Approved projects contribute to the development and/or commercialization of new products, processes or services, in strategic industrial sectors, which will be sold primarily beyond the borders of Prince Edward Island. Projects may also be eligible which replicate, or add to, the capacity of existing projects.

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.

7. Maximum Project Term

The project may exceed two years in length, but only up to two-years worth of eligible expenditures may be eligible for calculating the Innovation and Development Tax Credit for an eligible employment position.

8. Consistency with and Implications for SRED

The PEI Innovation and Development Tax Credit is not connected to the federal Scientific Research and Experimental Development (SRED) Tax Credit. Differing implications include:

- the Innovation and Development Tax Credit is a tax rebate program;
- the definitions of innovation and development within the two programs are not identical;
- the Prince Edward Island Innovation and Development Tax Credit is targeted at new products, processes or services and not strictly scientific research;
- earning a Prince Edward Island Innovation and Development Tax Credit does not guarantee approval for a Scientific Research and Experimental Development tax credit, and vice versa.

9. Eligible Expenditures

"Eligible expenditures" refer to the net cost of the salary or wages paid by the corporation to employees who are residents in Prince Edward Island and who, in carrying out his or her duties for the assigned position, undertake, supervise or directly support work relating to the performance of a "specified activity" of the corporation. During the project period, eligible employees must hold a full-time job under their employment contract and work a minimum of 26 hours a week. Eligible expenditures will be reviewed when the application for a Preliminary Certificate is received, and will be assessed regarding applicability to the project.

10. Ineligible or “Unreasonable” Expenditures

An employee whose duties are not directly related to the corporation’s specified activities is not eligible. The following duties and functions are specifically excluded:

- administrative services;
- accounting and legal services;
- consultant services;
- customer services;
- sales activities;
- senior management, **(with the exception of related parties as permitted under Section 11 below).**

Also excluded are salary or wages previously claimed for the eligible project or a previous project, and any portion of salaries and wages for which public assistance has been specifically provided. Salaries and wage payments to third party corporations are ineligible unless prior written consent is obtained and where deemed eligible, may be subject to a reduction in the amount eligible for rebate.

Salaries or wages will be deemed unreasonable at any time prior to the claim for rebate if, in the view of the department, salaries and wages are in excess of the compensation level consistent with the salary or which are not directly related to the project activity.

11. Related Parties

Salaries or wages paid to related parties are eligible to a maximum of \$40,000 per year. “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.

12. Calculating the Innovation and Development Tax Credit

The Innovation and Development Tax Credit is determined by multiplying the certified eligible expenditures for the project by 150% and, then, by multiplying the gross amount by 35%.

Example

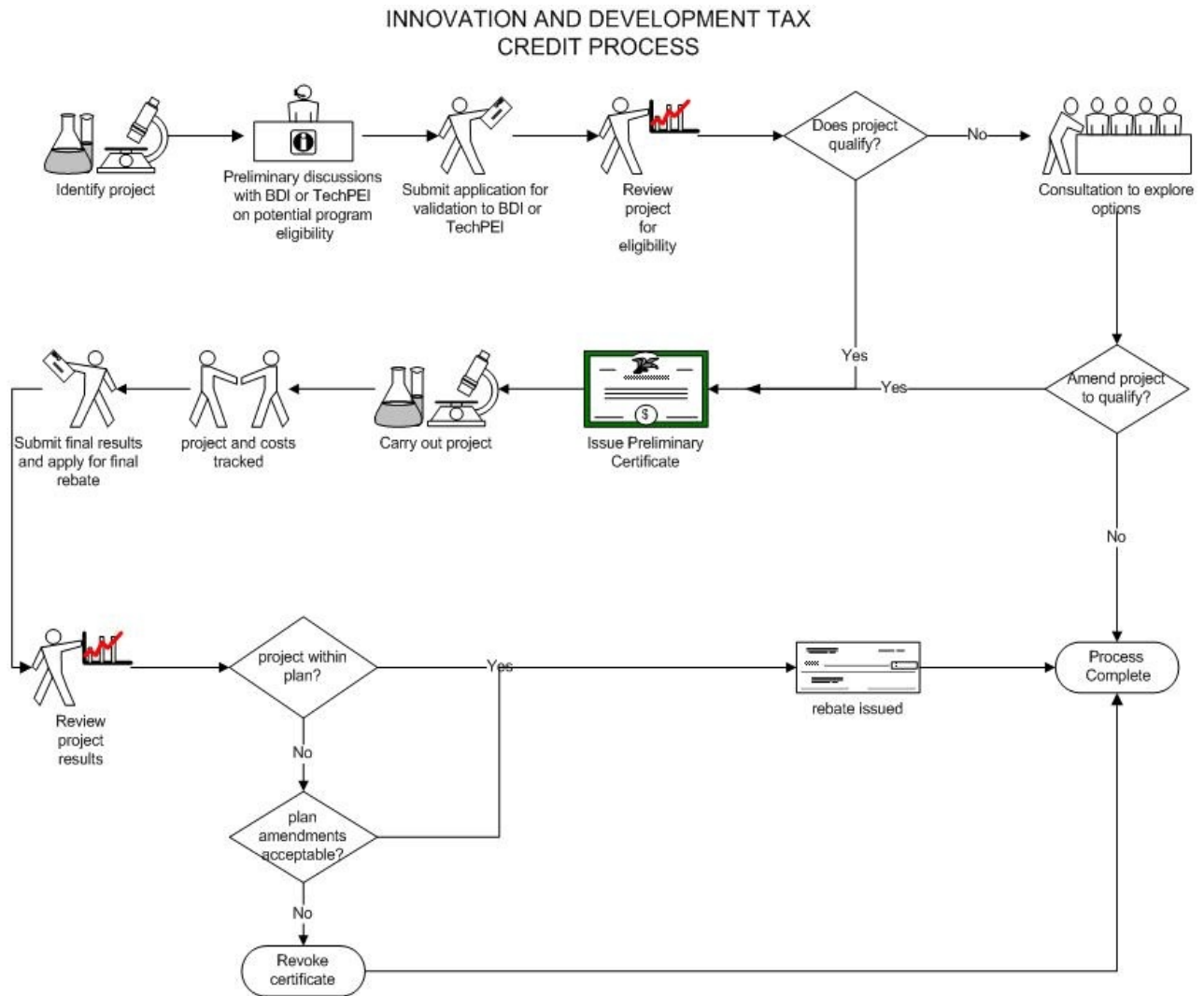
The following table summarizes the calculation of the Innovation and Development Tax Credit, assuming a tax credit rate of 35%:

<i>Eligible Labour Costs</i>	<i>\$100,000</i>
<i>Mark up, or proxy on labour (50%)</i>	<i><u>\$50,000</u></i>
<i>Eligible Expenditure Base (150%)</i>	<i>\$150,000</i>
<i>Provincial IDTC Tax Credit Rate</i>	<i>35%</i>
<i>Provincial Tax Credit</i>	<i><u>\$ 52,500</u></i>

13. Process Summary

The Innovation and Development Tax Credit process involves the issuance of a “Preliminary Certificate”, which must be applied for before the project is undertaken. At project completion, a Preliminary Certificate holder may request rebate based on actual project costs, which may be lower than, but may not exceed, the amount set out on the Preliminary Certificate. Between the issuance of the Preliminary Certificate and the claim for rebate of the Innovation and Development Tax Credit the company will undertake and complete the project as proposed and will make requested information filings (see section 17 of this Guide).

The following image presents a graphic depiction of the Innovation and Development Tax Credit process.



14. Application for the Preliminary Certificate

Emerging Businesses eligible for this new Innovation & Development Tax Credit would be pre-approved with the issuance of a “Preliminary Certificate” issued by Business Development Inc.

or Technology PEI. To be approved for a Preliminary Certificate, the applicant must be an eligible corporation and have made the application prior to commencing the project.

An eligible corporation that wishes to obtain an Innovation and Development tax credit must *first* apply for a Preliminary Certificate on the form provided in the Appendix. The following information is required:

- the name of the corporation;
- a description of the project to indicate that the project constitutes, within a strategic industrial sector, the development or commercialization, in Prince Edward Island, of a new product, process or service;
- a business plan clearly addressing the market opportunity and application for the innovation;
- proposed project commencement date;
- a list and description of the positions and the total estimated expenditure for salary or wages expected;
- such other information or documents as may be required.

15. Approval and Issuance of the Preliminary Certificate

On receipt, the application for a Preliminary Certificate will be reviewed. If the necessary conditions are found to apply, and the project is approved, a Preliminary Certificate will be issued (a copy of the form is provided in the Appendix).

If issued, the Preliminary Certificate will set out:

- the name of the eligible corporation to which the Preliminary Certificate is issued;
- a description or name of the project for which the Preliminary Certificate is issued and a statement that the project is an approved project;
- the proposed commencement date of the project and the estimated duration and completion date of the project;
- the date the Preliminary Certificate is issued;
- the maximum amount of eligible expenditures to be allowed under any innovation and development tax credit claimed in respect of the project; and
- a sample reporting interval or schedule so that PEI Business Development Inc. or Technology PEI may follow project development.

16. Waiving the Pre-certification Requirement

The requirement to apply for a Preliminary Certificate prior to commencing the project may be waived where, in the opinion of the Department, an existing project will be expanded or modified to sufficient extent to constitute a significant development opportunity for the province. In such cases the two-year limitation will apply from the date on which the Preliminary Certificate is issued.

17. Project Tracking and Progress Reporting

Prior to issuance of the Preliminary Certificate, PEI Business Development Inc. or Technology PEI and the eligible company will develop a reporting schedule to keep the Department informed of progress and changes as the project develops. This schedule will include providing a copy of the income tax filing and notice of assessment for the company for the year in which the credit is issued. Applicants will be required to agree to provide the requested information.

18. 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.

19. Deadline for Application for Rebate

The corporation must apply for rebate of the Innovation and Development Tax Credit within six months of the earlier of the estimated completion date of the project as set out in the Preliminary Certificate and the actual completion date.

20. If Eligible Expenditures Differ from Preliminary Certificate

The amount of eligible expenditures specified on the Preliminary Certificate is the maximum to be allowed in determining an Innovation and Development Tax Credit.

If the eligible expenditures for the project are less than those set out in the Preliminary Certificate issued by PEI Business Development Inc. or Technology PEI, the amount of tax credit will be reduced on a prorated basis to the appropriate amount based on actual expenditures.

21. Claiming the Innovation and Development Tax Credit

On completion of the approved project, the company may apply for a rebate of the actual eligible expenditures, applicable to the Project, up to the amount authorized in the Preliminary Certificate. A copy of the form is provided in the Appendix. The application for rebate will include the following information:

- a description of the history of the project and its status at the time of the application;
- an itemized accounting of the expenditures for salary or wages incurred in the Project (the Corporation reserves the right to request a T4 summary to confirm the wages reported to the Canada Revenue Agency);
- a copy of the Preliminary Certificate issued in respect of the project;
- total expenditures applicable to the Project; and
- such other information or documents as may be required.

22. Approval and Issuance of the Rebate

A rebate of the Innovation and Development Tax Credit will be issued for an approved project where the holder of a Preliminary Certificate complied with the terms and conditions set out in the Preliminary Certificate. Upon receipt of the application for rebate and review of project documentation, PEI Business Development Inc. or Technology PEI will confirm or calculate the amount of the tax credit, based on cost evidence and other documentation provided. If the Department is satisfied that the terms and conditions have been met, a rebate will then be issued.

23. Revocation of the Preliminary Certificate

The Innovation and Development Tax Credit may be revoked where, on investigation, the conditions set out in the Preliminary Certificate have not been met or prove to have been inaccurately or incorrectly presented.

24. Amalgamation with a Corporation Holding a Preliminary 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 hold a Preliminary Certificate in respect of an approved project for which a rebate has not been issued, the new corporation is deemed to be the same corporation as each of its predecessor corporations, in which case the rebate will be issued to the new corporation.

25. Winding-up of a Corporation Holding a Preliminary Certificate

Where a subsidiary is wound up and subsection 88(1) of the Federal Income Tax Act applies, and the subsidiary holds a Preliminary Certificate for an approved project, the parent corporation is deemed, for the purposes of this section, to be the same corporation as, and a continuation of, the subsidiary.

26. Summary of Timelines and Deadlines

There are several key timelines and deadlines to which applicants and holders of Preliminary Certificates must apply:

- the applicant must apply for the Preliminary Certificate before commencing the project;
- a project may exceed two years in length, but only two years of eligible expenditures may be used to calculate the IDTC;
- the corporation must apply for rebate of the Innovation and Development Tax Credit within six months of the earlier of the estimated completion date of the project as set out in the Preliminary Certificate and the actual completion date.

27. Public Announcements

Participants will consent to participate in a public announcement and/or public ceremony, relating to the establishment of the company and related accomplishments, at a mutually agreeable time.

Questions and Answers

<p>What constitutes a development activity?</p>	<p>A development activity refers to the creation of, or improvements to a new concept, product, process or service with a view to practical application and commercialization of that product or service.</p>
<p>What constitutes a commercialization activity?</p>	<p>Commercialization is the activity whereby a product, process, or service evolves from the concept, prototype or testing stage to internal use or production for sale.</p>
<p>Will improvements to a production process qualify?</p>	<p>Yes, providing the production process itself, or the output therefrom qualifies as a new or innovative product or service.</p>
<p>What is meant by new or innovative?</p>	<p>A new or innovative product, process or service is one that has not previously been developed for internal use or for commercial production or sale.</p>
<p>New or innovative to whom?</p>	<p>The product or service must be new or innovative in Prince Edward Island.</p>
<p>Will SRED eligible projects qualify?</p>	<p>Normally, yes, but not necessarily. The two credits are not inter-dependent.</p>
<p>What if others are working on a similar project?</p>	<p>Preapproval of the project activity will protect eligibility status.</p>
<p>May a company participate in more than one project at a time?</p>	<p>Yes. Each project will be separately applied for and separately certified at both Preliminary and Final stages, and the eligible expenditures for each must be separate.</p>
<p>Are any labour costs excluded?</p>	<p>Yes. Labour costs not directly associated with the project activity will be specifically excluded, as will payments to third party corporations, and compensation in excess of \$40,000 per annum to related parties.</p>
<p>Will labour costs be reduced by grants?</p>	<p>Yes. There will be a provision to reduce the expenditure base by other, labour-based grant, subsidy or assistance.</p>
<p>Are any costs other than labour eligible?</p>	<p>The expenditure base provides for some material and overhead costs by allowing 150% of salaries & wages.</p>
<p>Are expenses checked?</p>	<p>Yes, rebate will be calculated and based on cost evidence and other documentation provided.</p>
<p>Is the credit taxable?</p>	<p>Yes</p>

Appendix:
Innovation and Development Tax Credit
Applications

Innovation and Development Tax Credit Application for a Preliminary Certificate



Corporate Information



Corporation Name		
Business Identification Number	Date of Incorporation	
Mailing Address	PEI Address, if different	
Strategic Industrial Sector of Primary Business Activity Life Sciences <input type="radio"/> Financial Services <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	

Project Information

Project Title	Project Start Date	Project End Date
Proposed Project Cost	Proposed Eligible Expenditures	Other Government funding

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 Preliminary Innovation and Development 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

	Please 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	

Innovation and Development Tax Credit Application for Preliminary Certificate Project Information

Please provide a business plan and other documentation which will briefly, but clearly, provide the required information or answer the following questions:

1. Provide a summary description of the project.
2. Provide a project plan indicating proposed commencement date, milestones and end date.
3. Provide a description of the processes, products and/or services to be developed.
4. Explain how the project relates to a "new products or services" as defined in the Act or User Guide.
5. Describe the facility that will be used, or which is required, to carry out the project.
6. Where, in Prince Edward Island, is it proposed that the facility be located.
7. Provide a brief description of the activities required to complete the project.
8. Describe the types of jobs, e.g. design, programming, assembly, training, sales, and so on, that will be offered in the designated building. Provide a table indicating the types of jobs, number of employees, average salary and total salaries.
9. **Total Project budget with PEI expenditures identified (labour and goods/services)**
10. Describe the target market, i.e. location, features and buying requirements, projected market share and market niches targeted, and explain how your market intelligence was acquired.
11. Provide an assessment of your project in relation to local and foreign competition.
12. Is the product intended to create new intellectual property or work with existing intellectual property.
13. If new intellectual property will be created, provide information on any forms of protection, such as patents, copyright, etc., by means of which you hope to protect intellectual property.
14. Describe the additional funds required to complete the project and the sources of those funds.
15. Provide a summary of other government funding for the project for which the company intends to apply, including the funding organization, the amount, and whether funding will be tied to employment expenses.
16. Please submit the company's financial statements for the last two years.
17. Provide a list of shareholders and directors/officers of the company;
18. Provide a summary of "non-arm's length employee" salary or wages for the project, if any ("non-arm's length" has the meaning given it by the Canada Income Tax Act.)
19. **Resumes of proposed managers.**



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



Innovation and Development Tax Credit Application for Rebate



Preliminary Certificate Number

Corporate Information

Corporation Name:			
Business Identification Number:			
Mailing Address:	PEI Address, if different:		
Strategic Industrial Sector of Primary Business Activity Life Sciences <input type="radio"/> Financial Services <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:

Final Project Information

Project Completion Date:	Total Eligible Expenditures (from Box C on reverse)
Program Outcome:	

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 rebate under the referenced Innovation and Development 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

This form is intended to provide information respecting the Province of Prince Edward Island Income Tax Act and should not be regarded as a replacement of the laws, regulations or administrative documents to which it refers. Where there is a conflict between this form and the legislation, the legislation shall prevail.

	Please 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	

Innovation and Development Tax Credit



Summary of Eligible Expenditures

Eligible Expenditures

Eligible expenditures refers to the cost of the salary or wages paid by the corporation to employees who are resident in Prince Edward Island and who, in carrying out his or her duties for the assigned position, undertakes, supervises or directly supports work relating to the performance of a "specified activity" of the corporation. Eligible employee must hold a full-time job under his or her employment contract, with a minimum of 26 hours a week for the period of the project. Eligible expenditures will be reviewed when the applications for Preliminary Certificate and Rebate are received, and will be assessed regarding applicability to the project.

The amount of the tax assistance respecting wages may be capped for a "specified employee" per year. This ceiling is also scaled according to the number of days of eligibility out of 365 and the proportion of time devoted to the corporation's "specified activities."

	Individual	Position	See Note	Weekly or Hourly Salary/Wage	Weeks or Hours on Project	% time to specific activity	Total Salary/Wage Claimed	
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
A.	Total Salary and Wages Claimed							
B.	Less Government Assistance							
C.	Sub-total (A- B)							
D.	Mark-up for overhead (50% of C)							
E.	Total Eligible Expenditures C + D (transfer to front page)							

Note 1: Indicate in the space allotted if the individual is a "related party" (see User Guide).

<p>PRINCE EDWARD ISLAND BUSINESS DEVELOPMENT</p>	<p>Please 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</p>	<p>ENABLING THE NEW ECONOMY</p>
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