

Alberta Investor Tax Credit

(AITC)



■ PROGRAM OVERVIEW

The Alberta Investor Tax Credit (AITC) is an initiative under the Alberta Jobs Plan that will encourage investment in businesses that are bringing new products and services to market and creating jobs in Alberta. The program will start accepting applications on January 16, 2017.

The AITC is a three year program that will offer a 30 per cent tax credit to Alberta investors who provide venture capital to small Alberta businesses substantially engaged in:

- tourism activities such as resorts, skiing facilities, amusement and recreation industries, hunting and fishing camps, scenic and sightseeing transportation;
- research, development and commercialization of proprietary technology, products and processes
- development of interactive digital media and game products;
- post-production, visual effects and digital animation.

The AITC will be offered on a first-come first serve basis and has a budget of \$90 million over three years.

In summary, there are six steps to the program:

1. A Venture Capital Corporation (VCC) or Eligible Business Corporation (EBC) creates a user profile through the AITC's online application portal.
2. A VCC or EBC registers with the AITC program.
3. Once registration is approved, the registered EBC or VCC applies for approval to raise equity capital.
4. Once approval to raise equity capital has been granted, the EBC or VCC will independently raise equity.
5. The EBC or VCC will then apply for the Tax Credit Certificate on behalf of the investor.
6. Once approved, the Tax Credit Certificate will then be provided to the EBC or VCC who will provide it to the investor.

Please note:

- Investments made as of April 14, 2016, may be retroactively eligible for the AITC; however, the business that has received the investment must register with the program in 2017 and both investor and business must also meet all other program terms and criteria.
- Corporations should not delay investments while waiting for determination of eligibility. Investments made prior to approval may be eligible, if funds meet all requirements of additional equity raised.
- Small businesses that are conducting business activity in the eligible areas but are not officially registered as EBCs are eligible for investments from VCCs only. The VCC has the responsibility to ensure the small business is compliant with the *Investing in a Diversified Alberta Economy Act*.
- The Government of Alberta will keep public record of the remaining annual budget for program participants' reference.

- If a registered corporation is unsuccessful in receiving a tax credit within the current calendar year due to unavailable budget, applicants are encouraged to delay equity raises until the 2018 intake. If a corporation is unsuccessful in registering for the program, the corporation may try again at a later date when all registration requirements are met.

■ ELIGIBILITY CRITERIA

Eligibility for investors is limited to investors who pay personal or corporate taxes in Alberta and invest in eligible small businesses in Alberta.

Both individuals and corporations are able to invest under the AITC. This includes:

- accredited investors (e.g. angel investors);
- friends, family and business associates of the business owner;
- corporate investors;
- venture capital corporations; and
- individuals who are not accredited investors, provided the business meets the Alberta Securities Commission (ASC) requirements on prospectus exempt investments.

In order to invest into an Eligible Business Corporation (EBC) or Venture Capital Corporation (VCC), an investor must be considered an “eligible investor” as per section 35.01 of the [Alberta Personal Income Tax Act](#) for an individual, or section 5 of the [Alberta Corporate Tax Act](#) for a corporation.

For an investor to be eligible for a tax credit under the AITC program, the business they are investing in must be substantially engaged (at least 50 per cent of the company’s activities) in any of the activities described in the program overview above.

Please note:

- An individual’s investment in an EBC or VCC must be held for five years from the date of share issuance, otherwise the tax credit may be revoked.
- The VCC must also keep these funds in eligible investments for a minimum of five years (the prescribed period).

In order to be eligible to register under the AITC as a VCC, a business must:

- be registered under the *Alberta Business Corporations Act*;
- have or will have equity capital of at least \$25,000 at the time of registration;
- have a share structure consisting of only common shares that have no special rights or restrictions and/or common shares that have rights or restrictions relating only to the redemption of the shares by the corporation;
- have articles of incorporation that restrict its business to assisting the development of eligible small businesses, as directed in the Regulations.

VCCs established prior to January 1, 2017, are eligible to apply for the AITC so long as the VCC:

- has not received any investments from investors;

- has not made any investments into businesses; and
- complies with all other requirements set out in the Act.

Please note:

- A partnership structure is not eligible to receive a tax credit under the AITC program. Investors are required to invest into a VCC incorporated entity as defined in the *Investing in a Diversified Alberta Economy Act*.
- While the Government of Alberta interprets the terms Limited Partnership (LP) and General Partners (GP) as legal entities defined in the [Partnership Act](#), the Government of Alberta is aware that within the VCC community, the term LP is often used as a label for investors and the term GP is often used as a label for a VCC's management team. AITC program staff will take this into consideration during their review of all VCC applications.

In order to be eligible to register under the AITC as an EBC, a business must:

- have no more than 100 employees, including affiliates;
- be incorporated or continued under the *Business Corporations Act* of Alberta
- if exporting, pay at least 50 per cent of wages to employees who report to work in Alberta;
- if non-exporting, pay at least 75 per cent of wages to employees who report to work in Alberta;
- have more than 80 per cent of assets located in Alberta; and
- have at least \$25,000 in equity capital.

Additionally, for businesses to be eligible under the AITC, they need to be substantially engaged (at least 50 per cent of the company's activities) in at least one of the following activities:

- research, development and commercialization of proprietary technology, products and processes;
- development of interactive digital media and game products;
- post-production, visual effects and digital animation; or
- tourism activities – such as resorts, skiing facilities, amusement and recreation industries, hunting and fishing camps, scenic and sightseeing transportation.

Publicly traded companies may be allowed to register as an EBC under the program. However, to be eligible for a tax credit, the equity must be newly issued shares from the small business. Traded shares bought on an exchange are not eligible for the tax credit.

Please note:

- A small business that has received, or may receive, funding from the Alberta Enterprise Corporation is eligible for the program if it meets all other eligibility requirements.
- Changes to articles of incorporation that restrict the business are intended for VCCs only and are not required for EBCs.
- Flow-through shares are not eligible under the Alberta Investor Tax Credit.

For more information on eligible and ineligible business activities, please refer to the appropriate sections of this document.

■ FUNDING

There is no minimum investment required by the AITC program. However, eligible businesses may choose to only solicit investments above a certain value, based on their needs.

For individual investors:

- There is a \$60,000 maximum aggregate credit that can be applied per year.
- Tax credits may be carried forward for up to four years, which means that an investor may receive a credit for more than \$60,000, up to a maximum of \$300,000 (equal to a \$1,000,000 investment), as the \$60,000 per year tax credit will be allocated to the year the credit is realized as well as the four years that follow.



For corporate investors:

- The AITC it is a non-refundable tax credit.
- There is no maximum credit.
- However, an EBC can only raise up to \$5 million in direct investments – from corporate and individual investors. As such, the maximum a corporation may be able to directly invest in a single company is \$5 million. Also small businesses can only raise up to \$10 million over a 2 year period through VCCs.
- The tax credit may be carried forward for up to four years.

■ STEP 1: CREATE A USER ACCOUNT THROUGH THE ONLINE APPLICATION PORTAL

Sample application forms will be made available on the AITC program webpage on Alberta.ca starting January 3, 2017. Applicants will then be able to fill out and submit their applications through an online application portal that will be accessible through the AITC program webpage starting January 16, 2017. Before gaining access to the online application portal, applicants will be prompted to create a unique user profile.

■ STEP 2: REGISTRATION AS A VCC OR EBC

Business applicants are required to register with the AITC program through one of the following streams:

Venture Capital Corporations (VCCs):

Eligible VCCs are required to register with the AITC before they begin seeking investors. To register, the corporation is required to complete and submit a registration form through the online application portal.

In order to be successfully registered, the applicant will be evaluated against the eligibility criteria at the time of registration. If the eligibility requirements are met, a certificate of registration will be provided to the corporation within 30 days of the date of registration.

Eligible Business Corporations (EBCs):

EBCs are required to register with the AITC before they begin seeking investors. To register, the corporation is required to complete and submit a registration form through the online application portal.

In order to be successfully registered, the applicant will be evaluated against the eligibility criteria at the time of registration. Once the requirements are met, a certificate of registration will be provided to the corporation within 30 days of the day of registration.

Please note:

At the time of EBC registration the following documentation will be required:

- Certification of Registration, including the name of the corporation and the Corporate Access Number (CAN).
- Certification Form (found during registration) which is to be dated and signed by at least one Director and one Officer. In cases where a corporation only has one person on file, this person should date and sign both sections in the certificate.
- A Business Plan outlining the project plan and economic impact for the province if possible.
- Financial Statements: If the registrant can't provide one, a balance sheet or other proof of corporate finances, will be acceptable.

- Shareholder Register: also known as capitalization table, this register shows ownership stakes in a company, including equity shares.

■ STEP 3: APPROVAL TO RAISE ADDITIONAL EQUITY CAPITAL

After registration with the AITC program, VCCs and EBCs are required to submit applications to raise additional equity capital.

Venture Capital Corporations (VCCs):

Registered VCCs are automatically approved to raise equity capital up to \$50,000 by the end of the first year after the date of registration. In order to raise additional equity capital above \$50,000 the corporation must apply for approval.

Registered VCCs are required to pay an amount of money equal to 30 per cent of all amounts received as equity capital into an Investment Protection Account (IPA). Once the VCC has made an investment into an eligible small business or will use the money to make an eligible investment, the Government of Alberta will authorize a proportionate payment out from this IPA.

Eligible Business Corporations (EBCs):

Registered EBCs are required to apply for approval to raise equity capital and approval will be granted subject to conditions set out in the Act.

■ STEP 4: RAISE EQUITY CAPITAL

There are two channels of investment for the program. An investor can either invest directly in an Eligible Business Corporation (EBC), or invest indirectly into a small business through the purchase of equity in a Venture Capital Corporation (VCC).

An investor is required to take equity ownership in the VCC and/or EBC in exchange for capital. The EBC or VCC may not issue debt in exchange for capital from investors. Any one individual investor (including affiliates) must own less than 50 per cent of the equity shares.

Venture Capital Corporations (VCCs):

Tax Credit Certificates will be granted on a first-come, first-served basis until the annual budget is fully allocated. The sooner the VCC raises equity capital, the sooner they can apply to receive approval for the Tax Credit Certificate and ensure allocation from the budget.

The VCC must make timely investments into an eligible business; it will be required to invest the capital raised within a prescribed period of time. The rules are as follows:

- At least 40 per cent of equity capital raised during any fiscal year must be invested by the end of its first following fiscal year.

- At least 80 per cent of equity capital raised during any fiscal year must be invested by the end of its second following fiscal year.

An eligible small business or EBC can receive a maximum of \$10 million over a two year period from all registered VCCs.

Eligible Business Corporations (EBCs):

The sooner the EBC raises equity capital, the sooner they can apply to receive approval for the Tax Credit Certificate and ensure allocation from the budget.

An EBC can receive a maximum of \$5 million from all individual and corporate investors. And the EBC can receive a maximum of \$10 million over a two year period from all registered VCCs.

■ STEP 5: APPLICATION FOR TAX CREDIT CERTIFICATES

Each investor will provide their personal and/or corporate information to the Eligible Business Corporation (EBC) or Venture Capital Corporation (VCC) who will then apply for the tax credit certificate on behalf of the investor.

The tax credit will then be provided to the EBC or VCC who will provide it to the investor.

Venture Capital Corporations (VCCs):

Registered VCCs must request Tax Credit Certificates on behalf of their investors for eligible investments. The VCCs collect appropriate information from the investor and use it to complete the Share Purchase Information Form. This form will be accessible through the online application portal on the AITC program webpage. Once this form is complete, the VCC will submit it through the online application portal for issuance of Tax Credit Certificates.

Important notes:

- The VCC must invest at least 40 per cent of equity capital it has raised during any fiscal year by the end of its first following fiscal year, and;
- The VCC must invest at least 80 per cent of the equity capital it has raised during any fiscal year by the end of its second following fiscal year;
- Up to 20 per cent of equity capital raised may be used for administration expenses;
- Monies must be deposited into an Investment Protection Account (IPA) where the funding and accrued interest can be tracked.

Eligible Business Corporations (EBCs):

Registered EBCs must request Tax Credit Certificates on behalf of their investors for eligible investments. EBCs collect appropriate information from the investor and use it to complete the Share Purchase Information Form. This form will be accessible through the online application portal on the AITC program

webpage. Once this form is complete, the EBC will submit it through the online application portal for issuance of Tax Credit Certificates.

Please note:

- EBCs and VCCs cannot guarantee their investors they will receive a tax credit as the tax credit certificates are issued on a first come first served basis.
- The sooner the equity is raised and/or invested, the sooner the EBC or VCC can apply for the tax credit on behalf of their investors.
- The Government of Alberta will keep public record of remaining funds for program participants' reference.

■ STEP 6: DELIVERY OF TAX CREDIT CERTIFICATES

Tax Credit Certificates will be issued starting January 2018.

The tax credit certificates will be provided to the VCCs and EBCs who are responsible for distributing them to their investors.

■ ELIGIBLE BUSINESS ACTIVITIES

Venture Capital Corporations (VCCs) and Eligible Business Corporations (EBCs) must be engaged in the specific business activities to be eligible for the program, as outlined below:

1. Development and operation of a destination tourist resort, attraction or a tourist service

The purpose is:

- to incent Alberta investors to invest in tourism projects that will create jobs and support diversification, and
- to incent Alberta investors to develop new tourism products in targeted geographic areas of the province (outside a national park of Canada).

Some examples of tourism related businesses that can be considered eligible for the AITC program are destination resorts, tourist services and attractions.

To qualify under this activity, a business must demonstrate that it:

- i. earns or will earn 50% or more of its gross revenues from tourists. A “tourist” is an individual who resides more than 40 kilometres from the destination resort or attraction.
- ii. is located outside of the Canadian National Parks, and
- iii. operates or will operate concurrently for at least 120 consecutive days a year.

Resorts: This industry is comprised of establishments primarily engaged in providing short-term lodging. Resorts are designed to accommodate vacationers and provide no fewer than 4 full-service suites and guest rooms. Establishments of this type often provide access to conference facilities. These

establishments feature extensive indoor and/or outdoor leisure activities, retail, commercial, and restaurant or food services on the premises. Examples include:

- Resorts with integrated health spa facilities (such as Nordic spa and yoga retreat)
- Ski lodges and resorts

Skiing facilities: This industry is comprised of establishments primarily engaged in operating downhill and cross-country skiing areas, and equipment, such as ski lifts and tows. These establishments often provide retail, commercial, equipment rental, ski instruction and restaurant or food services. Examples include:

- Alpine skiing facilities
- Cross country skiing facilities
- Downhill skiing facilities
- Ski lift and tow operations
- Ski resorts, without accommodations

All other amusement and recreation industries: This is comprised of establishments primarily engaged in operating recreation and amusement facilities and services. These establishments also provide retail, commercial, and restaurant or food services. Examples include:

- Outdoor adventure operations (such as white water rafting, zip lines and water slides), without accommodation
- Indoor recreational operations
- Hunting or fishing guide services
- Off Highway Vehicle (OHV) and snowmobile parks

Recreational vehicle (RV) parks, campgrounds and vacation camps: This includes establishments primarily engaged in operating recreational vehicle parks, campgrounds, overnight recreational camps, outdoor adventure retreats and comfort camping. It also includes establishments that operate serviced or unserviced sites to accommodate campers and their equipment, including tents, tent trailers, travel trailers and RVs (recreational vehicles). These establishments may provide access to facilities, such as washrooms, laundry rooms, recreation halls and facilities, retail, commercial, and restaurant or food services.

Examples include:

- Outdoor adventure retreats (with accommodation)
- Recreation and wilderness camps
- Children's camps, family vacation camps, and outdoor adventure retreats that offer trail riding, white-water rafting, hiking and similar activities

Zoos and Botanical Gardens: This industry comprises establishments primarily engaged in constructing and maintaining displays of live plant and animal life for public viewing.

Examples include:

- Aquariums

- Aviaries (bird exhibits)
- Botanical gardens
- Petting Zoos
- Zoos

Scenic and sightseeing transportation: This industry is comprised of establishments primarily engaged in providing recreational transportation for sightseeing or scenic tours. The establishments often use vintage or specialized transportation equipment and the services provided are local in nature, usually involving same-day return.

Examples include:

- Sightseeing or dinner cruises
- Steam train excursions
- Speed-boat rides
- Helicopter, glider or hot-air balloon rides
- Charter fishing services
- Aerial cable cars, tramways and gondolas.

2. Research, development and commercialization of proprietary technologies

This category covers business activities involving research, development and commercialization of proprietary technologies, products and processes.

Commercialization is the process of introducing a new product or production method and making it available to the public market. This includes the commercial production of proprietary technologies that are capable of improving the processing and manufacturing of goods and services. This can also include the commercialization of technology platforms, services or processes that can be used in retail or wholesale trade.

Some costs associated with exporting the technology can be included for the purpose of calculating the required minimum 50 per cent of engagement in an eligible business activity. This category assumes no technology has been marketed at this stage of the business' development, so the costs to export the proprietary technology developed in Alberta would include:

- The operation of a demonstration or prototype facility.
- Marketing the technology to possible customers outside Alberta.
- Attendance at international trade show.

3. Development of interactive digital media in Alberta

This group of activities is involved with development within Alberta of interactive digital media or video game products intended for commercial use. AITC Regulation 12 (1) (c) defines the following eligibility criteria for the product:

- responds to user interactions with moving images, animation, video or audio; and
- is not one for which public financial support would, in the Minister's opinion, be contrary to public policy.

“User interaction” is defined by the repeated steps whereby the product presents information to the user, and to which the user must respond.

Eligible products should:

- be intended for experience by the end user on a digital media platform, network or device that is capable of interactivity;
- be intended to educate, inform or entertain the user,
- be suitable for commercial use and/or broad dissemination;
- not be products that are developed for internal use to promote the qualifying corporation, including its products or services;
- not be products that are used primarily for interpersonal communications
- not be products that solicit funds

Examples of eligible products include:

- Digital games
- Mobile applications
- Educational children’s interactive digital media,
- Video game software publishing,
- Custom design video games.

An activity will not be considered eligible if it involves the development of a product that is “contrary to public policy” in the opinion of the Minister. Examples of content that would be considered “contrary to public policy” in the opinion of the Minister include product that:

- incites hatred against an identifiable group, or
- has a dominant characteristic which is the undue exploitation of sex, violence involving one or more crimes, horror, or cruelty.

4. Post-production, visual effects and digital animation

Eligible businesses include those that are engaged in producing, distributing, recording, and providing related services such as post-production services, promotion, and exhibition, motion picture processing and developing services. Businesses that provide facilities and technical expertise for recording, and post-production services are also eligible.

Digital animation is animation created primarily with the use of digital technology including computer animation hardware and software.

Visual effect is commonly used in connection with live action productions or sequences to refer to a special effect which is usually inserted into the production after filming. The effect may be created by digitally augmenting and manipulating visual imagery originating on film, tape and/or digital elements generated in the computer and compositing the modified imagery back onto film or tape.

Examples of eligible business activities include the following:

- Music studio recording services,
- Developing and printing of commercial motion picture film,
- Editing motion picture films, video or television tape,
- Visual effects photography , including, but not limited to:
 - Blue or green screen photography
 - element photography,
 - motion control photography,
 - miniature photography
 - motion capture sessions and digital scanning and/or surveying of actors, set pieces or entire sets.
- Audio/sound editing and mixing,
- Film, video and tape transfer service,
- Motion picture film, television tape and video processing, editing, titling and sub-titling,
- Music video production,
- Audio recordings, integrated manufacture, release and distribution
- Stock footage, film libraries,
- Tele-production services.

■ INELIGIBLE BUSINESS ACTIVITIES

The AITC program does not support the following:

1. Exploration or extraction of minerals or the operation of a mine

This category involves the exploration or extraction of oil, gas, bitumen, coal and other minerals or the operation of a mine. A company in this sector may still qualify if it is a small business that is substantially engaged (at least 50 per cent of the company's activities) in research, development and commercialization of proprietary technologies, products and processes.

2. Financial services

Financial services such as providing loans, selling insurance or real estate or trading in securities are ineligible business activities under this program. However, the research, development and commercialization of financial services technologies including software and applications that improve the offering of financial services are eligible business activities (at least 50 per cent of the company's activities). An example of eligible financial services includes the development and commercialization of mobile payment applications.

3. Agricultural activities other than non-traditional agricultural activities

Traditional agricultural activities such as the cultivation and tillage of the soil, dairy production, cultivation, growing and harvesting of any agricultural or horticultural commodities and raising of livestock, bees, fur-bearing animals or poultry, are ineligible under this program.

Activities such as research, development and commercialization of proprietary technologies, products and processes that include the use of specialized small crops, small livestock and small poultry production are eligible (at least 50 per cent of the company's activities).

While the development of high technologies that support traditional agricultural activities are eligible, activities that involve the simple purchase and use of high-technology products or services are considered ineligible under this program.

High technology enterprises are businesses involved in research and development of proprietary technologies. They offer products or services for agricultural producers based on application of advanced technologies.

■ APPLICATION DATES

Program intake opens January 16, 2017, and will remain open until the budget is allocated.

- Investments made as of April 14, 2016, may be retroactively eligible for the AITC; however, the business that has received the investment must register with the program in 2017 and must also meet all other program terms and criteria.

■ REPORTING REQUIREMENTS

Registered VCCs must prepare and file an annual report with the Minister of Economic Development and Trade within six months following their fiscal year end.

The annual report form will be available through the online application portal and must include the prescribed information as outlined below with respect to its most recently ended fiscal year (please see section 23 of the AITC regulations):

- the amount of equity capital raised by the venture capital corporation;
- the aggregate value at cost of investments made by the venture capital corporation, the name of each small business the shares of which the venture capital corporation sold and the value at cost of those shares;
- the balance held in the investment protection account of the venture capital corporation at the end of the fiscal year;
- the aggregate amount of expenses incurred by the venture capital corporation and the amount paid as management fees;
- whether any fees or remuneration were paid to the shareholders, officers or directors of the venture capital corporation or to any associate or affiliate of any of them by a small business in which the venture capital corporation made an eligible investment;

- whether the articles of the venture capital corporation were amended in a manner that changed the share structure of the venture capital corporation or altered any rights or restrictions attached to any share of the venture capital corporation
- the amount of all dividends received by the venture capital corporation in respect of an eligible investment made by it in a small business;
- whether the venture capital corporation redeemed any of its shares;
- whether a share redemption referred to in clause (h) was reported to the Minister;
- in relation to a share redemption referred to in clause (h) that was not reported to the Minister, the name of each investor whose shares were redeemed, the date of each redemption, the number of shares redeemed in each redemption, the investor's cost of each share redeemed in each redemption and the consideration paid by the venture capital corporation in respect of the redemption;
- whether the venture capital corporation paid any expenses to any person or group of persons who, at the time the payment was made, directly or indirectly controlled the venture capital corporation;
- whether the venture capital corporation notified the Minister of the occurrence of any events referred to in section 17.

Registered EBCs must prepare and file an annual report with the Minister of Economic Development and Trade within six months following their fiscal year end.

The annual report form will be available through the online application portal and will include fields for the prescribed information as outlined below with respect to its most recently ended fiscal year (please see section 49 in the *Investing in a Diversified Alberta Economy Act*:

- a copy of the securities register of the eligible business corporation;
- the copy of the most recent financial statements of the eligible business corporation that have been reviewed by a chartered professional accountant or other person who is a licensed or registered member of an accounting association;
- copy of the most recent annual return filed with the Registrar of Corporations;

Important notes:

- An eligible business corporation must comply with this reporting in each of the five consecutive fiscal years following the date of its most recent issue of shares as part of the raising of additional equity capital.

■ ADDITIONAL INFORMATION

Recognition

Investments eligible for tax credits through the program are required to acknowledge Government of Alberta support for the initiative. Any public announcement will be in consultation with and approval of the Government of Alberta as to the contents of the announcement. The Government of Alberta also reserves the right to make a joint public announcement on any investments eligible for tax credits through the program. For coordination of announcements and to receive appropriate communications materials, please contact the Program Administrator at AITC.program@gov.ab.ca.

Freedom of Information and Privacy (FOIP)

The FOIP Act applies to any information that is provided to the Ministry of Economic Development and Trade. This information may be disclosed in response to an access request under the FOIP Act, subject to any applicable exceptions to disclosure under the Act. The personal information that is provided on the grant application form will be used for the purpose of administering the AITC program.