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the credit is yours

The Special Investment Tax Credit Program

50%  



Government
of Canada

Gouvernement
du Canada

Regional
Economic
Expansion

Expansion
Économique
Régionale

Canada 

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... On the advice of my colleague, the Minister of Regional Economic Expansion, I am proposing a bold and experimental new program to help deal with regional inequalities in this country. For new manufacturing investment in specially designated areas of the country, characterized by high unemployment and low income, I propose an investment tax credit of 50 per cent terminating at the end of 1985.

Allan J. MacEachen
Budget Speech
October 28, 1980

Dear fellow citizens:

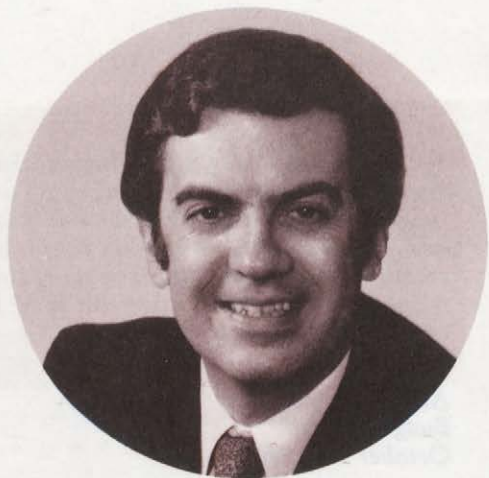
In presenting his first budget, the Honourable Allan J. MacEachen, Deputy Prime Minister and Minister of Finance, announced an exceptional program of aid to the industrialization of certain regions: the 50 per cent Special Investment Tax Credit.

This measure is absolutely without precedent in the history of my department.

Thanks to this federal initiative, over the next 10 years you will be able to deduct, from your federal tax payable, up to 50 per cent of the cost of your manufacturing investments made in the next five years in the specially designated regions in each province and territory of Canada.

It is an exceptionally generous program. In some cases \$1 of tax credit could be worth up to \$3 in other forms of financial assistance.

The administration of this program has been kept as simple as possible: the fiscal advantages are rightfully and automatically yours from the moment you make an eligible manufacturing investment. All you have to do is claim the credit as part of your income tax return.



My department will take this new program into account when a firm applies for a benefit from the other, discretionary programs administered by the Department of Regional Economic Expansion: grants, repayable incentives, loan guarantees, etc. In some cases, when the department plays a determining role in the location of a firm in an important industrial sector, we can envisage the use of several of these programs in combination.

I am profoundly convinced that this new program will constitute, for your firm and for the specially designated regions, a significant advantage.

In closing, let me remind you that every DREE office in Canada is at your disposal to help you benefit from these programs.

Pierre De Bané
Minister of Regional
Economic Expansion



the program

For an eligible industry in a specially designated area, you can claim 50 per cent of the capital costs of assets acquired after October 28, 1980 and before 1986 against your federal tax payable.

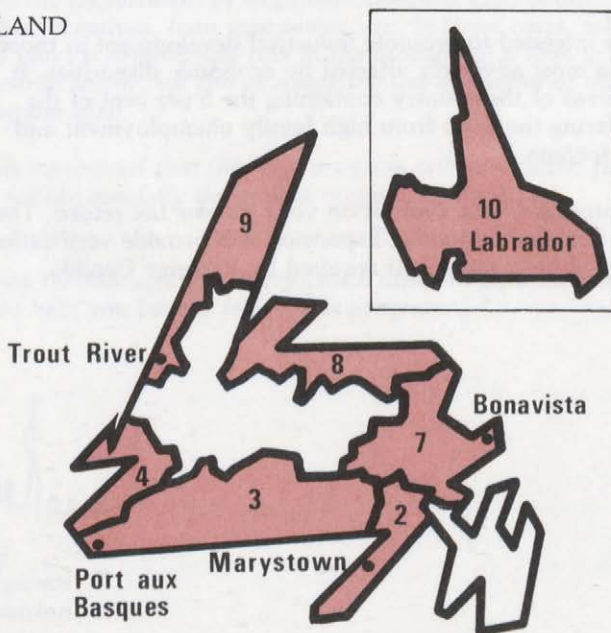
The program is intended to promote industrial development in those parts of Canada most adversely affected by economic disparities. It aims at those areas of the country containing the 5 per cent of the population suffering the most from high family unemployment and low per capita income.

The credit is automatic; you claim it on your income tax return. The Department of Regional Economic Expansion will provide verification of the eligibility of your project, if required by Revenue Canada.

the designated areas

Parts of all provinces and territories are designated.

NEWFOUNDLAND



Census divisions 2, 3, 4, 7, 8, 9 and 10.

PRINCE EDWARD ISLAND

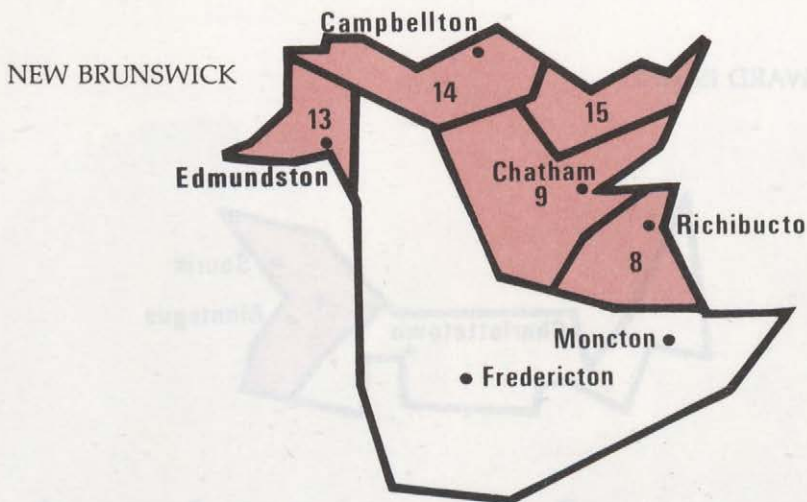


Kings census division (01).

NOVA SCOTIA

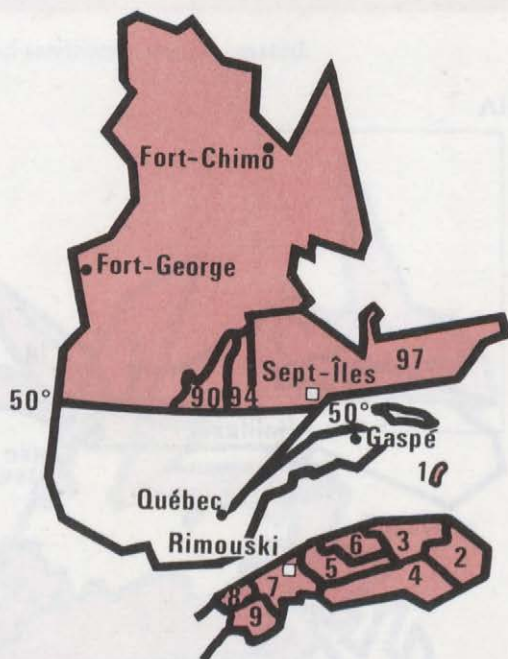


Census divisions Guysborough (13), Inverness (15), Richmond (16), Cape Breton (17), and Victoria (18).



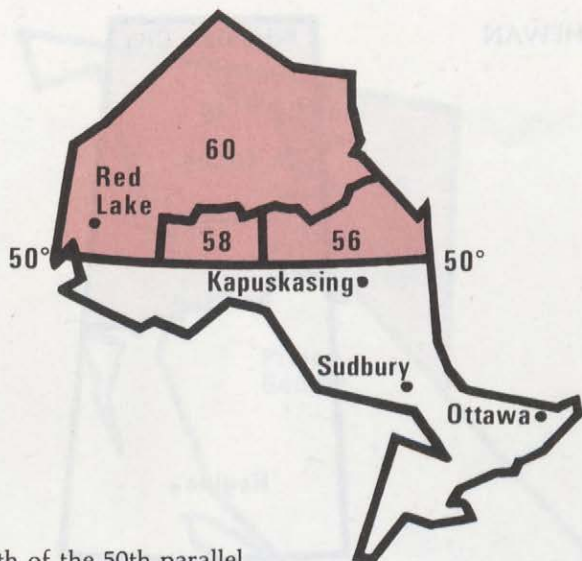
Census divisions Kent (08), Northumberland (09), Madawaska (13), Restigouche (14), and Gloucester (15).

QUEBEC



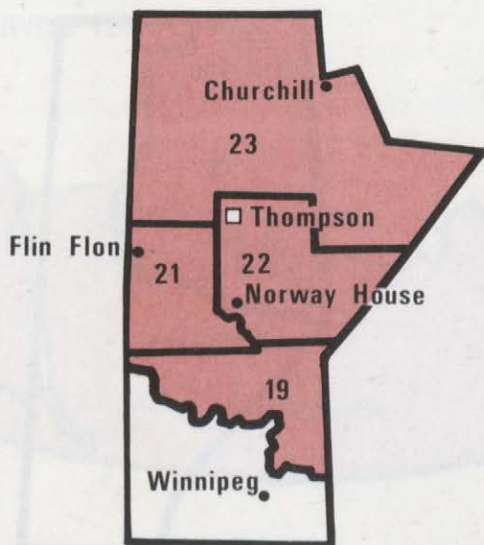
The area north of the 50th parallel, excluding the urban area of Sept-Îles; the Magdalen Islands (01); and in the Gaspé region, census divisions Gaspé-Est (02), Gaspé-Ouest (03), Bonaventure (04), Matapédia (05), Matane (06), Rimouski (07) excluding the urban area of Rimouski, Rivière-du-Loup (08), and Témiscouata (09).

ONTARIO



The whole area north of the 50th parallel.

MANITOBA



The northern part of the province, which includes census divisions 19, 21, 22 and 23, but excludes the urban area of Thompson.

SASKATCHEWAN



The census division of Northern Saskatchewan (18).

ALBERTA



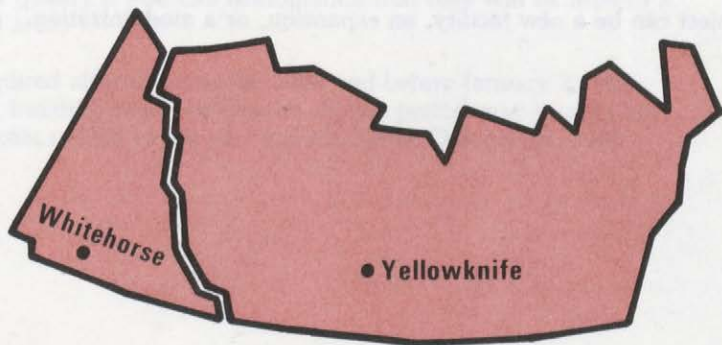
The census division of Peace River (15), excluding the urban area of Grande Prairie.

BRITISH
COLUMBIA



The census division of Peace River-Liard (55).

YUKON AND NORTHWEST TERRITORIES



All of Yukon and the Northwest Territories.

the activity



All manufacturing and processing activities, as defined under the *Regional Development Incentives Act*, are eligible.

So, for example, fish and other food processing, sawmilling and metal fabrication qualify, while farming, fishing, logging and petroleum refining do not.

There is no project size limit: no minimum, no maximum.

Your project can be a new facility, an expansion, or a modernization.

the asset



Depreciable assets that meet the criteria of the *Income Tax Act*, such as buildings, machinery and equipment, are eligible if you use them primarily in manufacturing or processing as defined under the *Regional Development Incentives Act*.

In general the assets must be unused when you acquire them. However, if you totally renovate a used asset, you can claim the cost of renovation, but not the cost of acquisition. And certain mobile assets may qualify if you can demonstrate that they will be used in a designated area.

Assets acquired after October 28, 1980 and before January 1, 1986 qualify. A building begun before the eligible period may qualify but only for costs related to the part acquired after October 28, 1980.

the credit



The investment tax credit of 50 per cent applies to the eligible capital costs of assets, as defined under the *Income Tax Act*, acquired primarily for use in a manufacturing or processing activity as defined under the *Regional Development Incentives Act*.

In any one year, your tax credit cannot exceed the lesser of:

- 50 per cent of eligible capital costs incurred, or
- \$15 000 plus one half of your remaining federal tax payable.

You must use the tax credit within five years after the year of acquisition of the asset.

This Special Investment Tax Credit adds a tier to the present system of investment tax credit, under which the amount of credit varies from region to region. Where the new Special Investment Tax Credit Program does not apply, the investment tax credit rates established in 1978 remain, as follows: in the Atlantic provinces and the Gaspé it is 20 per cent; in the other regions designated under the *Regional Development Incentives Act* it is 10 per cent; and in the rest of Canada it is 7 per cent.



the procedure

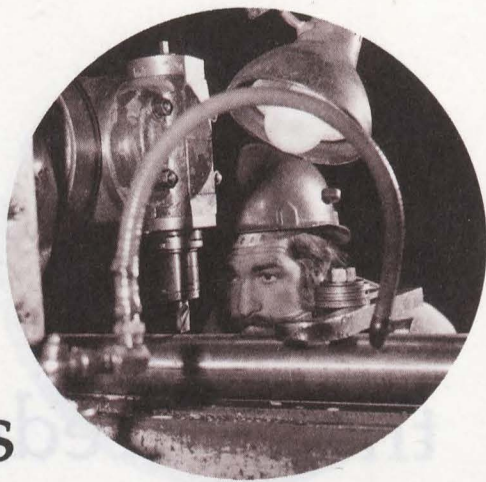
The administration of this program has been kept as simple as possible. No prior approval of projects is required. Simply claim the credit on your tax return.

You will have to subtract the amount of tax credit you claim from your available capital cost allowances in order to avoid a double benefit.

If Revenue Canada requires verification of the eligibility of your activity, DREE will supply it.

If your tax payable is less than the tax credit, you may defer part of the credit to subsequent taxation years. If you have no tax payable, the whole tax credit may be deferred. However, you must claim your tax credit within the five years following the year of acquisition of the assets.

the examples



Remember: In any one year, your tax credit cannot exceed the lesser of:

1. 50 per cent of eligible capital costs incurred, or
2. \$15 000 plus one half of your remaining federal tax payable.

The calculations in the following examples do not take into account that your available capital cost allowances must be reduced by the amount of the tax credit you claim.

EXAMPLE 1

If your eligible investment is	\$ 20 000
then your tax credit is 50% of \$20 000	= \$ 10 000

If your federal tax liability for the year is	\$ 12 000
then the tax credit you can claim is	\$ 10 000
and your federal tax payable for the year is	\$ 2 000

EXAMPLE 2

If your eligible investment is \$100 000
then your tax credit is 50% of \$100 000 = \$ 50 000

If your federal tax liability for the year is \$ 30 000

then, using the formula $\$15\,000 + \frac{\$30\,000 - \$15\,000}{2}$

to calculate the tax credit, the amount you can claim for the year (Year 1) is \$ 22 500

and your federal tax payable for the year is \$ 7 500

If your federal tax liability is the same in the two succeeding years, the tax credit you can claim is \$22 500 in Year 2 and \$5 000 in Year 3. Thus, over a three-year period, your tax credit would total \$ 50 000



information

The Department of Regional Economic Expansion has offices in every province and territory. For further information on the Special Investment Tax Credit or any other DREE program, contact the office nearest you, or contact our head office at:

Regional Economic Expansion
Public Information Services Branch
Ottawa, Ontario
K1A 0M4
Tel.: (819) 997-2096

For information on completing your tax return, please contact Revenue Canada.

