

EMPLOYEE SHARE PURCHASE TAX CREDIT (MB) INFORMATION AND WORKSHEET

Summary:

The Employee Share Purchase Tax Credit offers current employees support to buy in and own a portion of a business to support business growth, facilitate succession planning and to promote employee participation.

Employees who buy shares from a registered Employee Share Ownership Plan (ESOP) qualify for the partially refundable 45 per cent tax credit.

Types of Assistance:

Employees may buy shares from their employer and receive a tax credit if the business has a registered ESOP. Canadian-controlled private corporations with assets used in active business of up to \$25 million and which pay at least 25 per cent of their remuneration to employees who are Manitoba residents, are eligible to register ESOPs to raise up to \$10 million in equity capital.

Employee investments for succession planning, takeover or buyout purposes are eligible for a tax credit of up to \$202,500 annually (equal to \$450,000 in shares purchased). The first \$27,000 of the tax credit is refundable to the employee. The remaining tax credit amount is claimable against Manitoba personal income tax incurred in either the three years prior to the share purchase year or the following 10 years, up to a maximum \$67,500 annually (less the refundable tax credit).

Employee investments to promote employee ownership or to establish a workers co-op are eligible for a fully refundable tax credit of up to \$27,000 annually (equivalent to \$60,000 in shares purchased).

Legislative background:

Employee Share Purchase Tax Credit: Income Tax Act (Manitoba) section 11.18
<http://web2.gov.mb.ca/laws/statutes/ccsm/i010e.php#11.18>

Application for registration of ESOP, Income Tax Act (Manitoba) section 11.21(1)
<http://web2.gov.mb.ca/laws/statutes/ccsm/i010e.php#11.21>

Contact:

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Website: <https://www.gov.mb.ca/jec/busdev/financial/esptc/index.html>

APPLICATION CONTENT

Please complete this worksheet and submit with your application to register an Employee Share Ownership Plan (ESOP).

The following documents must be included in a complete application:

- The corporation's most recent annual financial statements.
- The corporation's most recent income tax return.
- The corporation's most recent Canada Revenue Agency notice of assessment.
- A copy of the ESOP plan.
- The terms and conditions applying to the shares to be issued under the ESOP.
- Indication of the years and/or months requested for the ESOP registration.
- A signed statement by an officer of the corporation that the corporation is eligible under the legislation to register an ESOP.
- A signed statement by an officer of the corporation of the amount of equity capital to be raised under plan.
- An attestation by an officer of the corporation as to the completeness and accuracy of the application.

Determining the purpose of your ESOP:

Indicate the purpose of the employee share purchase arrangement (select one only).

- succession planning for family business
- employee buyout or takeover
- worker co-operative (shares must be common shares)
- employee participation (shares must be common shares)

Determining your corporation's eligibility:

A. The corporation is authorized to issue shares that qualify for:

- A CED tax credit under section 11.8
- Or
- The SBVC tax credit under section 11.13

OR

B. The corporation meets all of the following requirements at the time of application:
(You must be able to check all of the following boxes to meet this requirement)

- The corporation is a Canadian-controlled private corporation,
- The corporation has a permanent establishment in Manitoba,
- Substantially all of the carrying value of its assets or its affiliates' assets are used in an active business,

- The revenue of the corporation and its affiliates is derived principally from active business and not principally from property,
- The carrying value of its assets (including affiliates) is less than \$25 million,
- The carrying value of its assets (including affiliates) less its total indebtedness is not more than \$10 million.
- At least 25% of total wages and salaries of the corporation are paid to Manitoba residents.

*** Exclusions from eligibility:**

Checking either of these boxes means that the corporation is not eligible.

- The corporation, or any affiliate, is a financial institution, which means:
 - a bank, credit union or caisse populaire,
 - Provides services as a trustee to the public,
 - Carries on the business of insurance,
 - Carries on business as a trader or dealer in securities
 - Principal business is lending money, cashing cheques, purchasing and collecting or selling debt obligations, discounting tax refunds or rebates, or any combination of these, or
 - Derives more than 50% of its revenue from any combination of the above businesses.
- The corporation is a prescribed labour-sponsored venture capital corporation.

OR

C. An ESOP holding corporation

The Employee Share Purchase Plan must indicate:

- The minimum and maximum number of eligible employees.
- That an investment confirmation will be issued by the issuer.
- The frequency and method of valuation of the shares to be issued.
- The proposed use of share proceeds.

The Employee Share Purchase Plan is subject to:

- Shares not being issued until fully subscribed and paid for.
- Equal rights being given to all eligible employees.
- Shares being of only of a single class.
- A \$10 million maximum is to be raised.

The prospective share purchasers:

- Must be residents of Manitoba.
- Must be employees of issuer or an affiliate of the issuer, or a qualifying trust for the employee.

Other parameters:

Please indicate any affiliates of the corporation and the nature of their relationship to the corporation. A corporate structure chart can be provided for illustrative purposes.