

Ministry of Finance

Tax Bulletin



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British Columbia Manufacturing and Processing Tax Credit

Income Tax Act (British Columbia)

Bill 18, *Finance and Corporate Relations Statutes Amendment Act, 2000*, amended the *Income Tax Act* (Act) to provide the legislative framework for the British Columbia Manufacturing and Processing (M&P) Tax Credit Program described in this bulletin. Bill 18 received royal assent on July 6, 2000.

Bill 2, *Taxation Statutes Amendment Act, 2001*, amended the Act to repeal the M&P tax credit effective July 30, 2001. Bill 2 received royal assent on August 16, 2001.

The M&P Tax Credit Program provides tax credits to qualified corporations that carry on manufacturing and processing in British Columbia and make purchases of qualified property between **April 1, 2000 and July 30, 2001**. A corporation may claim the M&P tax credit when filing its *T2 Corporation Income Tax Return*. The Canada Revenue Agency administers the processing of claims.

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Definitions

The following terms are defined in section 104 of the Act for the purpose of this credit:

- BC qualified property,
- excluded property,
- government assistance,
- manufacturing or processing, and
- qualifying corporation.

In addition, the following terms, which are defined in the *Income Tax Act* (Canada), are used in this legislation:

- amalgamation,
- non-government assistance, and
- qualified property.

BC qualified property means property, other than excluded property, that:

- was acquired by the corporation after March 31, 2000 and before July 31, 2001,
- was not used, or acquired for use or lease, for any purpose before it was acquired by the corporation,
- is a prescribed building, machinery or equipment as defined by federal regulations made for the purposes of the definition of qualified property in subsection 127(9) of the federal Act,

and is to be

- used in British Columbia by the corporation primarily for manufacturing or processing goods for lease or sale, or
- leased by the corporation to a lessee who is a qualifying corporation that is related to the corporation, and who can reasonably be expected to use the property in British Columbia primarily for manufacturing or processing goods for sale or lease.

For the purposes of applying for the tax credit, paragraph 104(2) deems a BC qualified property not to have been acquired until the property becomes available for use by the qualifying corporation as outlined in subsections 13(27) and 13(28) of the federal Act.

Government assistance means assistance from government, municipality or other public authority whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or any other form of assistance other than the M&P tax credit.

Excluded property means property acquired by a qualifying corporation in a taxation year in the course of earning income in the taxation year if any of the income is exempt income, as defined in section 248(1) of the federal Act, or is exempt from tax under Part 1 of the federal Act.

Manufacturing or processing is not specifically defined in the *Income Tax Act* or the federal Act. While certain activities are defined as being included in the definition or specifically excluded from the definition, the ordinary and everyday meaning of the terms “manufacture” and “process” must be looked to for a definition.

Federal Interpretation Bulletins IT-145R and IT-147R3 may be referred to for clarification on manufacturing and processing definitions, and manufacturing and processing property.

Capital cost of the property is the amount actually expended by a corporation to acquire a capital asset. Capital cost is the cost of an asset, not its value. It includes all “laid-down” costs, such as freight, installation, duties and provincial taxes but does not include any costs of borrowing. The capital cost of property includes any repayments of assistance made and is reduced by any government or non-government assistance received, receivable or reasonably expected to be received, with the exclusion of the M&P tax credit.

If your company is a goods and services tax (GST) registrant and entitled to claim back the GST as an input tax credit, the capital cost of the property will not include the GST. If your company is not a GST registrant, the capital cost of the property will include the GST paid.

If the expenditure is made in a non-arm's length transaction, the cost will be the fair market value at the time of transfer or the capital cost, whichever is less.

Eligibility Requirements

In order to apply for the M&P tax credit for a taxation year, a **qualifying corporation** must have a permanent establishment in British Columbia during the taxation year.

A corporation is not eligible to apply for the M&P tax credit if it:

- is exempt from taxation under section 27 of the Act,
- is controlled directly or indirectly in any manner whatever by one or more persons, all, or part, of whose taxable income is exempt from taxation under section 27 of the Act or under Part 1 of the federal Act,

- a small business venture capital corporation registered under section 3 of the *Small Business Venture Capital Act*, and
- is an employee venture capital corporation registered under section 8 of the *Employee Investment Act*.

The Tax Credit

A **non-refundable tax credit** may be claimed by a **qualifying corporation**. The amount of the non-refundable credit for a taxation year is 3% of the corporation's BC qualified property for the taxation year less any amount renounced for that year.

The amount of non-refundable tax credit that **may be deducted** in a taxation year is limited to the amount of the corporation's income tax payable for that year. The amount eligible for deduction in a taxation year is:

1. the non-refundable tax credit for that taxation year,
2. the non-refundable tax credit for the 10 taxation years immediately preceding that year and the 3 taxation years immediately following that year
3. the non-refundable tax credit for that taxation year that can be considered to be a reasonable share of the tax credit for property acquired by a partnership,
4. the non-refundable tax credit for the 10 taxation years immediately preceding that year and the 3 taxation years immediately following that year that can be considered to be a reasonable share of the tax credit for property acquired by a partnership,

and

5. if a corporation repays assistance that reduced the amount of its tax credit in a previous year, 3% of the amount repaid,

less

6. any amount claimed in a previous year for (1) to (5).

A corporation may carry back the non-refundable tax credit to years which started prior to March 31, 2000.

Relationship to Other Credits

Prior to claiming the M&P tax credit, the corporation must claim all other deductions available in computing its income tax payable, with the exception of the

British Columbia Scientific Research and Experimental Development (SR&D) Non-Refundable Tax Credit Program. This includes the following:

- foreign tax deduction,
- logging tax deduction,
- royalty and deemed income rebate,
- political contributions, and
- small business venture capital tax credit.

The M&P tax credit and the British Columbia SR&ED tax credit cannot be claimed on the same capital expenditure. For a capital expenditure to qualify for the M&P tax credit, the property must be used in British Columbia primarily (greater than 50% of its operating time) for the purpose of manufacturing and processing goods for sale or lease. To qualify for the SR&ED tax credit, all, or substantially all (90% or more), of the capital expenditure's operating time must be used for SR&ED in British Columbia.

Partnerships

While only qualifying corporations can claim the M&P tax credit, a qualifying corporation that is a member of a partnership that acquires BC qualified property may claim a tax credit based on the corporate partner's share of the partnership investment tax credit. The allocation is made at the end of the fiscal period and is generally considered to be the corporate partner's reasonable share of the investment tax credit if it is made in the same proportion in which the partners have agreed to share any income or loss.

Section 106 restricts the amount of the M&P tax credit that may be allocated by a partnership to its limited partners. This provision generally limits the allocation to the limited partner's "at risk" amount.

Renouncing

A corporation may renounce all, or part, of its unused non-refundable tax credit in respect of its M&P tax credit for a taxation year. If the corporation renounces its entitlement to a tax credit, the corporation is deemed not to have been entitled to receive, or to have had a reasonable expectation of receiving, that credit.

Amalgamations and Wind-ups

To ensure the continued availability of non-refundable investment tax credits after an amalgamation or wind-up, the following provisions apply for the purposes of the M&P tax credit:

- two or more corporations amalgamate (within the meaning of section 87(1) of the federal Act), the amalgamated corporation is deemed to be a continuation of each of its predecessor corporations, or
- a subsidiary corporation is wound up (within the meaning of section 88(1) of the federal Act) or there is a vertical amalgamation, the parent corporation is deemed to be a continuation of the subsidiary corporation.

The M&P tax credit can only be carried forward in the above situations. There is no provision available for carry back to previous years of the predecessor corporation(s).

Applying for the Credit

A qualifying corporation **must** file an application for the M&P tax credit and provide the information required with its *T2 Corporation Income Tax Return*.

The corporation will not be entitled to the M&P tax credit if the application is not filed within 18 months after the end of the taxation year in which the property was purchased. In order to claim a tax credit in relation to a purchase incurred in a taxation year, the application must be filed within this time period even if the credit will not be deducted until a subsequent year.

Role of Canada Revenue Agency and Ministry of Finance

The Ministry of Finance has contracted with Canada Revenue Agency to review and audit the M&P tax credit claims. If a corporation disagrees with the amount of credit assessed by Canada Revenue Agency, a *Notice of Objection* should be filed with Canada Revenue Agency within 90 days of the date on the *Notice of Assessment*.

Need more info?

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The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Income Tax Act* and Regulations are on our website at www.sbr.gov.bc.ca/business/Income_Taxes/Corporation_Income_Tax/legislation.htm