

Eligible Use of Funds

Funds raised by the eligible business must be used in an active business and cannot be used for any of the following purposes:

- Lending
- Purchasing shares, other than shares in other eligible businesses
- Paying dividends
- Purchasing services or assets provided by Her Majesty in right of the province
- Redemption of shares or the funding of the purchase of all or substantially all of the assets of a previously existing proprietorship, partnership, joint venture, trust company, except where the firm is in receivership or bankruptcy
- The purchase of assets or services by the eligible business for a price greater than fair market value
- For any other prescribed purpose

Tax Credit

Beginning with the 2011 taxation year, the tax credit is calculated at 35% of the investment made by the individual to a maximum annual investment of \$20,000 (maximum annual credit \$7,000).

The investment may be made within the calendar year or within 60 days of the end of the taxation year.

The credit is not refundable but may be carried forward for seven years or carried back three years. However the credit cannot be carried back beyond the 2011 taxation year.

The maximum credit which can be claimed in a single taxation year (including current year and carry forward or back amounts) cannot exceed \$7,000.

Tax credit receipts will be issued by the Department of Finance and Municipal Affairs and must be submitted with the individual's T1 Income Tax return for the year.

Investors are required to hold the investment for at least five years. If an investment is disposed of within this five year period, the individual shall be required to repay a prorated amount of the tax credits.

Additional Information

For questions or to obtain more information please contact the CEDB Coordinator:

Community Economic Development Business
 Economics, Statistics and Federal Fiscal Relations
 Division
 PO Box 2000
 Charlottetown, PE C1A 7N8
 Tel: 902-368-4030
 Fax: 902-368-4034
 Email: CEDB@gov.pe.ca
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Prince Edward Island Community Development Equity Tax Credit

Information Guide



11PT06-31825



Introduction

The Community Economic Development Business (CEDB) program provides a method for Islanders to invest in economic development within their community. Through the program, an approved CEDB may obtain equity financing from Islanders. The Province of Prince Edward Island provides a personal income tax credit, the Community Development Equity Tax Credit, to the individuals investing in the approved CEDB.

Equity financing is an alternative to other forms of financing such as debt and traditional government assistance.

Eligible Businesses

Businesses that are eligible for registration as a Community Economic Development Business include corporations and associations pursuant to the laws of Prince Edward Island.

The Community Economic Development Business raises capital by issuing shares to individuals, and in turn invests that capital in eligible local businesses that meet the following criteria:

- Involved in active business
- Have less than \$25 million in assets or revenues
- Have less than 100 full-time employees
- At least 75% of the salaries and wages paid in Prince Edward Island

Eligible Investments

In the case of corporations, eligible investments must be newly issued voting common shares of the corporation that are non-redeemable, non-convertible and are not restricted in profit sharing or participation upon dissolution. The shares cannot be eligible for any other tax credit or deduction allowed under the *Income Tax Act*, except as a deduction for RRSP purposes.

In the case of associations, eligible investments must be a share that would, if it were the only share issued to the investor, allow the investor to be a member in the co-operative and allow the member to participate in the affairs of the co-operative.

Each initial offering of shares must have at least 25 eligible investors.

In addition, shares are not eligible if the investor disposed of any shares of the eligible business at any time after January 1, 2011 and before the specified issue of shares. The specified issue of shares means the shares that are specified in the application of the eligible business to which a Certificate of Registration applies.

Eligible Investors

The credit is available to residents of Prince Edward Island who are over 19 years of age. It should be noted that any approval of shares issued under the program does not constitute an endorsement by government of the business issuing the shares. The province does not guarantee any investment. The investor bears the risk of the investment.

Application

An eligible business must make application to the Minister of Finance and Municipal Affairs to obtain a Certificate of Registration. This Certificate makes the specific shares eligible for the tax credit. Pre-approval of eligibility is required. Share offerings under the program must be reviewed by the office of the Superintendent of Securities. Application forms can be obtained from the CEDB Coordinator.

In addition to the application form, the following information must be included:

- Financial statements for the preceding taxation year and a copy of the T2 Income Tax Return
- A copy of the business' letters patent or articles of association outlining certain prescribed restrictions.
- A copy of the current shareholder or member register.
- A community economic-development plan detailing a least the following:
 - i) A description of the defined community the business intends to serve
 - ii) A mission statement outlining the economic-development strategy of the business
 - iii) The amount of funds to be raised by the issue
 - iv) A description of the business
 - v) Proposed use of funds
 - vi) A list of directors

