

Summary of Budget 2019 Changes to the Small Business Venture Capital Tax Credit Program

Budget 2019 introduced a number of changes to the Small Business Venture Capital Act (SBVCA) and Income Tax Act.

The amendments are intended to modernize the small business venture capital tax credit program and bring the program up to date with current investment practices and business operations of venture capital backed technology-based start-ups.

The following changes are now in effect.

SBVCA and Income Tax Act Amendments

1. The eligible business corporation (EBC) maximum lifetime limit is increased from \$5 million to \$10 million

- Effective from February 20, 2019 the maximum amount of equity that an EBC can raise under the tax credit program is increased from \$5 million to \$10 million.

2. The maximum annual amount of tax credit that an individual investor can claim is increased from \$60,000 to \$120,000

- The \$120,000 annual tax credit limit is available to investors who purchase shares in an eligible business on or after February 20, 2019.
- B.C. investors who invest \$400,000 on or after February 20, 2019 can claim the maximum annual tax credit of \$120,000 when filing their 2019 tax return.
- The additional \$60,000 tax credit amount is not retroactive and not available in respect of investments made prior to February 20, 2019. The maximum annual tax credit available to any investor who invested prior to February 20, 2019 is \$60,000.

For example, if an investor invested \$1 million on February 19, 2019, then the maximum amount of tax credit the investor can claim in the 2018 tax year (i.e. tax credit carried back to previous year), and carried forward in each of the next four years from 2019 to 2022 is \$60,000 per year. If the investor does not apply the tax credit to their 2018 tax return, then the \$60,000 annual limit can be applied to the investor's tax returns in each year 2019 to 2023.

- If an investor invested \$2 million on or after February 20, 2019, then the maximum amount of tax credit the investor can claim in the 2019 tax year is \$120,000. The investor can carry forward and can claim the annual limit of \$120,000 in each of the subsequent four tax years from 2020 to 2023.

3. “Convertible Rights” (i.e. Simple Agreement for Future Equity, or “SAFE”) is added to the definition of “Equity Share”

For eligible business corporations (EBCs)

- As of March 2, 2019, a convertible right investment in an EBC is eligible for a tax credit. A convertible right is a right that will convert to an equity share at a later date – generally at the next round of financing.
- A tax credit certificate is issued to the investor when the investment in the EBC is made, not when the convertible right converts to shares.
- The five-year hold period begins at the time of investment in the convertible right of the EBC.
- An EBC must be registered in the program for their convertible rights to be eligible for a tax credit. Convertible rights issued prior to registration are not tax-credit eligible.
- A convertible right is not included in the \$25,000 equity capital requirement for a business applying for EBC registration.
- To ensure the convertible right meets the requirements of the Act and is tax credit eligible, the EBC should submit the convertible right agreement to the program for Administrator approval.

For venture capital corporations (VCCs)

- A VCC cannot issue a convertible right.
 - As of March 2, 2019, a VCC investing in a convertible right of an eligible small business (ESB) will be an “eligible investment” at the time of investment, and will count towards the VCC’s investment pacing requirements.
 - A VCC that invested in an ESB’s convertible right prior to March 2, 2019, will have its investment become an “eligible investment” as at March 2, 2019, and count towards the VCC’s investment pacing requirements from that date.
- To ensure the convertible right meets the requirements of the Act as an eligible investment, Administrator approval is required prior to the VCC making a convertible right investment in an ESB. The VCC must attach the convertible right agreement to the *Investment Protection Application and Investment Report* form.

4. Forgiveness of the amount of tax credit owed to the Province starts after shares have been held for two years, instead of after three years

- An EBC wishing to exit the tax credit program, or wishing to redeem the shares of an investor who received a tax credit, will be eligible for the pro-rated forgiveness of their tax credit liability after two years, instead of three years.
- A VCC wishing to redeem the shares of an investor, who received a tax credit, will be eligible for the pro-rated forgiveness of their tax credit liability after two years, instead of three years.
- The EBC or VCC must be in compliance and in good standing with the SBVCA to be eligible for a pro-rated reduction of their tax credit liability.

- Effective as of February 20, 2019.
- 5. Investors are able to purchase tax-credit-eligible investments from their Tax Free Savings Account (TFSA) or transfer those investments into their TFSA**
- Effective as of February 20, 2019.
- 6. A new activity called “advanced commercialization” will be added as an eligible business activity**
- Advanced commercialization is for businesses using digital technology tools to assist other businesses in acquiring or retaining customers through on-line technologies.
 - Only businesses located outside the Metro Vancouver Regional District and Capital Regional District will be eligible for the advanced commercialization activity.
- Effective as of February 20, 2019.
- 7. A new activity called “scale-up activity” will be added as an eligible business activity**
- Scale-up activities are those related to the development of a business and the acquisition of customers by developing the business’s brand and identity, developing marketing content and collateral and other activities related to expanding a qualifying business activity.
 - Businesses are eligible for the scale-up qualifying activity if they have been in a qualifying activity for the previous two years, and at least two years has elapsed since an EBC first raised additional equity capital, or a VCC first invested in an ESB.
- Effective as of February 20, 2019.

For further information or clarification on the changes, please contact the Investment Capital Branch at 1 800-665-6597 or via email at InvestmentCapital@gov.bc.ca.