



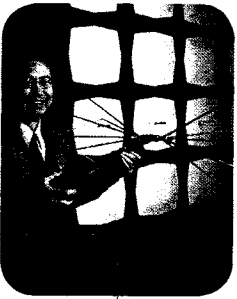
# Investment Capital Program Guidelines

**Creating Business Investment, Innovation and Opportunity**

*Accelerate your access to capital*



Today's small businesses are dynamic innovators that will shape British Columbia's economy for years to come. New businesses and innovations are an important component of our economic future; they create jobs, diversify economic activity and allow British Columbia to compete in the global marketplace.



There are many challenges to owning a business. Among them, access to capital. The ability to raise capital can determine whether or not a good idea gets off the ground.

### **Why Venture Capital?**

Many business start-ups have little or no cash flow to service debt payments or assets to offer as security. They may turn to venture capital investors who provide patient sources of equity financing with the goal of generating long-term capital appreciation. Growing businesses may also seek venture capital investors to fund new product development, capital projects or financing to keep pace with a rapidly expanding client bases and emerging new markets.

Existing businesses looking to compete in today's global market place are also seeking innovative ways to improve productivity and turn new products and services into commercial success.

An adequate supply of capital is a critical factor in the success of all companies. From business start-up through development, expansion and succession, venture capital investments can support the success of your company.

In addition to supplying a company with money, many angel investors and venture capitalists can provide guidance and mentorship opportunities – many offer extensive industry knowledge and personal experience in building new companies.

# Investment Capital Branch Programs

The Province of British Columbia offers four key programs to help small businesses in British Columbia access capital for business start-up and expansion.

The Investment Capital Programs offered by the Investment Capital Branch, offer tax credits to investors making equity capital investments directly in British Columbia based small businesses or indirectly through specialized venture capital investment funds.

Tax credits offered under the *Small Business Venture Capital Act (SBVCA)* and the *Employee Investment Act (EIA)* have the capacity to support up to \$168 million of investment capital annually and are designed to support continuous access to early-stage venture capital for small businesses.

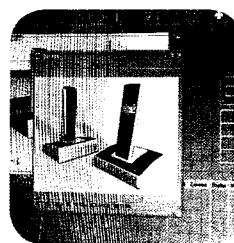
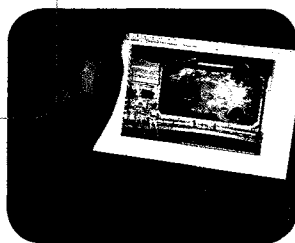
## **Direct Investment**

The direct investment model is suited for small businesses raising capital directly from arms-length investors. Investors residing in British Columbia earn tax credits for purchasing shares in an Eligible Business Corporation or Employee Share Ownership Plan.

## **Portfolio Investing**

Venture Capital Corporations and Employee Venture Capital Corporations are holding companies that raise investment capital from British Columbia residents and then invest these funds into one or more eligible businesses. This investment structure is ideal for investors who want to pool their capital with others and rely on professional management to select a diverse portfolio of investment opportunities.

Have a closer look at our programs and see where you fit in as an investor, small business owner, or employee. The right funding, at the right time, can make all the difference in achieving success in today's economy.



## Eligible Business Corporation (SBVCA)

Existing or new small businesses may register as an Eligible Business Corporation ("EBC") to raise equity capital directly from arms-length eligible investors. Investments in an EBC are made without guarantee of return and must be held for at least 5 years. Please note, EBCs also qualify to receive investment from Venture Capital Corporations and Employee Venture Capital Corporations.

Individuals who purchase shares of an EBC are eligible to receive a refundable tax credit equal to 30% of their investment amount, up to a maximum of \$60,000 in credits per taxation year. Corporations may only deduct the tax credit from British Columbia taxes otherwise payable under the Income Tax Act (British Columbia). There is no annual limit on the tax credit for corporations; however, the credits are not refundable.

Excess tax credits, either corporate or personal, may be carried forward and used in any of the four subsequent taxation years. □

### Eligible investors:

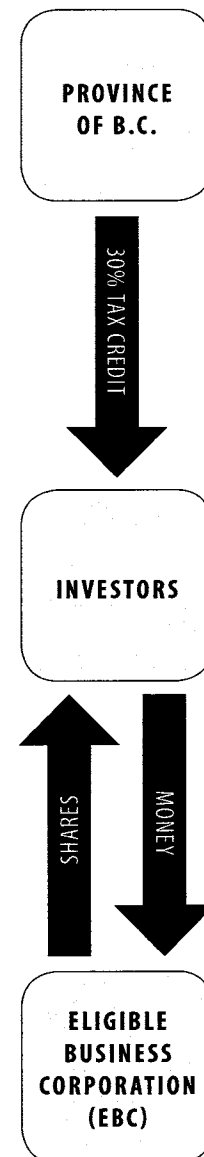
- Investors are BC residents or taxable corporations.
- Shares may not be redeemed, acquired or cancelled for at least 5 years.

### The EBC must:

- Have no more than 100 employees.
- Pay at least 75 percent of its wages to BC residents (50 percent if in export).
- Have equity of at least \$25,000
- Be substantially engaged in a prescribed activity.

### The EBC shares:

- Common or preferred shares
- Investor is arms-length and does not, directly or indirectly, control the EBC
- Maximum \$5 Million of direct investment.



## Employee Share Ownership Plan (EIA)

The Employee Share Ownership Program (ESOP) provides employees with a 20% tax credit for making investments in their employers' business. British Columbia residents can claim up to \$2000 in ESOP tax credits annually; these credits are not refundable. An employee's investment in their employers' company is made without guarantee of return and must be maintained for at least 3 years.

Entrepreneurs can use an ESOP as a tool for retirement succession planning, employee recruitment and retention, increasing employee engagement and financing growth. □

### Eligible Employees:

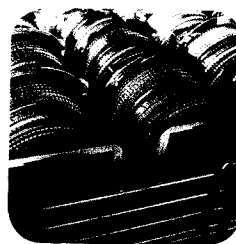
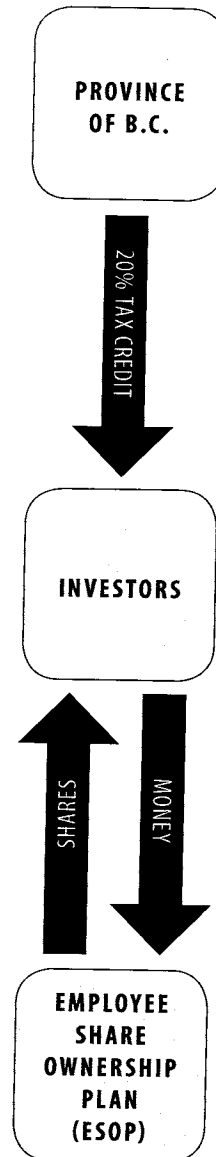
- Are BC Residents
- Work 20 or more hours per week
- Shares may not be redeemed, acquired or cancelled for at least 3 years

### The ESOP must:

- Be a Canadian company that pays at least 25% of its wages to BC residents
- Have, together with its affiliates, less than \$500 million in total assets

### The ESOP Shares:

- Fully participating, voting and at risk
- Equal opportunity for all employees to acquire
- Annual share valuation



## Venture Capital Corporation (SBVCA)

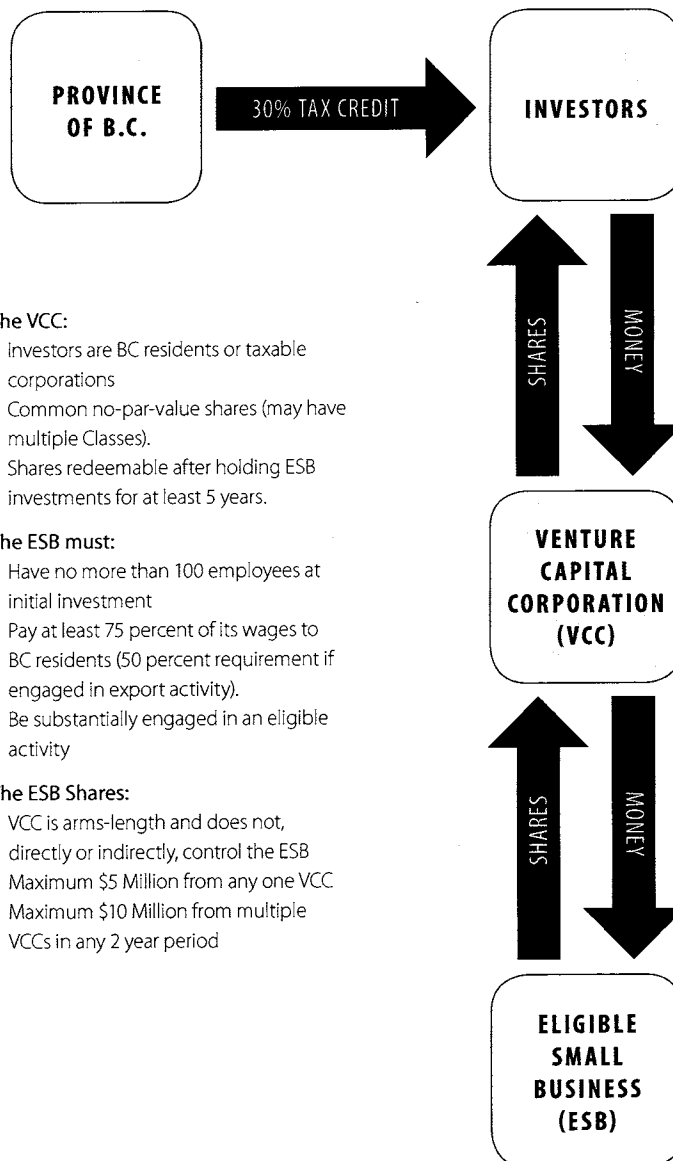


A Venture Capital Corporation (VCC), which is similar to a holding company, raises capital through private or public share offerings, to invest in Eligible Small Businesses (ESB). Shares of a VCC must be held for at least 5 years, but may provide the investor with an opportunity for dividend income and long-term capital appreciation.

Individuals who purchase shares of a VCC are eligible to receive a refundable tax credit equal to 30% of their investment amount, up to a

maximum of \$60,000 in credits per taxation year. Corporations may only deduct the tax credit from British Columbia taxes otherwise payable under the Income Tax Act (British Columbia). There is no annual limit on the tax credit for corporations; however, the credits are not refundable.

Excess tax credits, either corporate or personal, may be carried forward and used in any of the four subsequent taxation years. □



### The VCC:

- investors are BC residents or taxable corporations
- Common no-par-value shares (may have multiple Classes).
- Shares redeemable after holding ESB investments for at least 5 years.

### The ESB must:

- Have no more than 100 employees at initial investment
- Pay at least 75 percent of its wages to BC residents (50 percent requirement if engaged in export activity).
- Be substantially engaged in an eligible activity

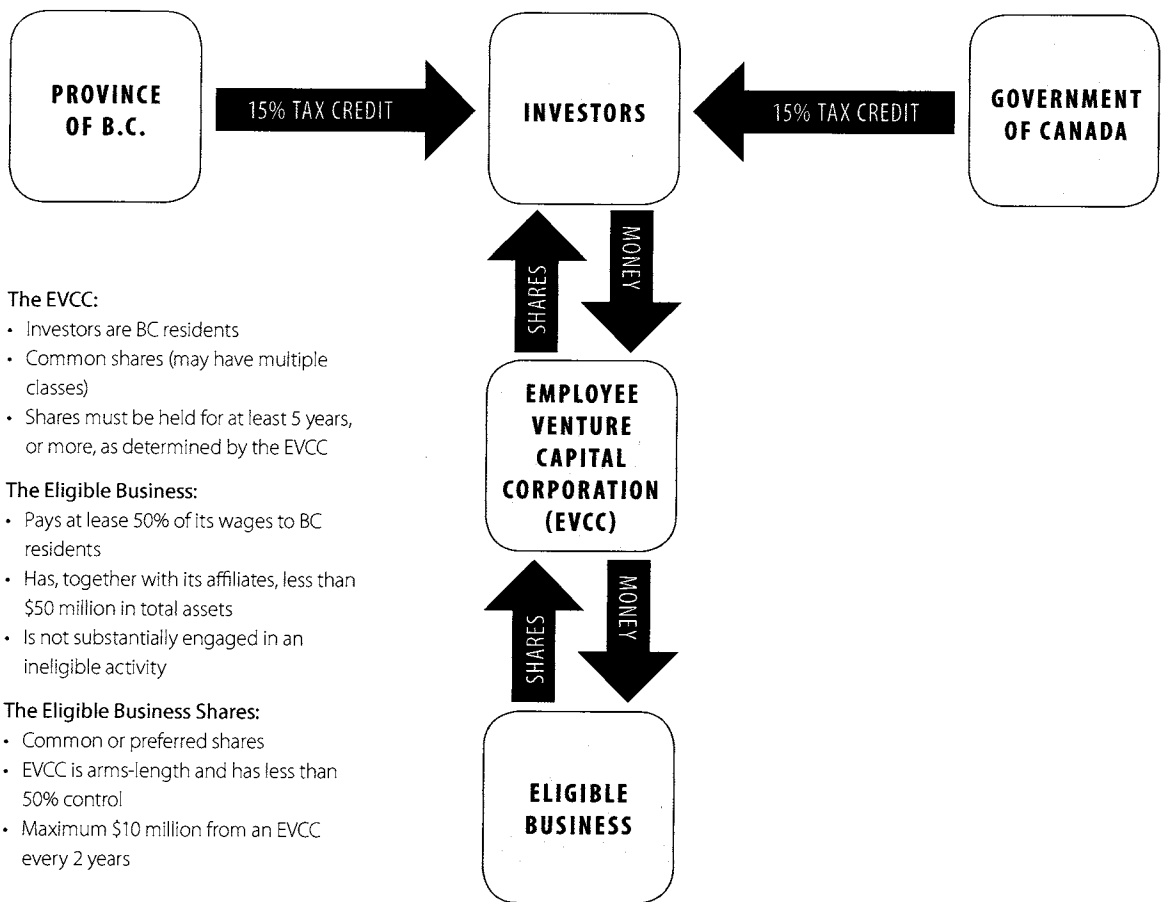
### The ESB Shares:

- VCC is arms-length and does not, directly or indirectly, control the ESB
- Maximum \$5 Million from any one VCC
- Maximum \$10 Million from multiple VCCs in any 2 year period

## Employee Venture Capital Corporation (EIA)

An Employee Venture Capital Corporation (EVCC) must be sponsored by an employee organization – EVCCs are also known as Labour-Sponsored Funds. EVCCs raise capital through share offerings, and invest in eligible businesses.

Investors receive a 15 percent provincial tax credit, to a maximum of \$2,000 per year, and an additional federal tax credit of 15 percent, to a maximum of \$750 per year. Investments are not capable of prompt liquidation, but may provide an opportunity for dividend income and long-term capital appreciation. □



## How To Get Started

If, after reading these guidelines, you wish to learn more or would like to register your business for one of our programs, you should visit our website at [www.equitycapital.gov.bc.ca](http://www.equitycapital.gov.bc.ca).

Our website contains important information, including:

- ▶ Additional information about the programs and how they can work for your company
- ▶ Frequently asked questions and links where you can learn more about venture capital
- ▶ Application forms
- ▶ Current status of tax credit budgets and regular updates related to the programs

## For investors

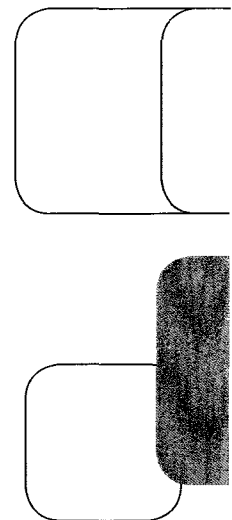
In most cases, investments under these programs may be eligible for inclusion in a self-directed RRSP which can result in further tax benefits. You should contact your RRSP provider for more information on purchasing shares through your RRSP.

For all of our programs, tax credit incentives are realized through the issuance of tax credit certificates. Tax credit certificates are attached to your annual income tax return to be filed with the Canada Revenue Agency for processing.

Companies issuing shares under these programs must comply with the requirements of the *British Columbia Securities Act*.

For further information, visit the BC Securities Commission website.

All investors and registrants should consult with their own personal advisors to ensure legal, tax and accounting requirements are met with respect to the purchase and sale of their shares. □



### Investment Capital Branch

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The Province of British Columbia in no way guarantees the value of any shares issued by a company registered under these programs, nor does it in any way express an opinion as to the financial condition of these companies or the merits of purchasing their shares.

Please also note that the ministry does not provide investment-matching services as part of program delivery. Participants are responsible for finding and attracting investors under all programs.