Government of Saskatchewan
Ministry of Finance

Information Bulletin

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SASKATCHEWAN INVESTMENT TAX CREDIT FOR MANUFACTURING AND PROCESSING

GENERAL

The Saskatchewan Investment Tax Credit (ITC) for Manufacturing and Processing (M&P) is available to all M&P corporations filing a T2 Corporation Income Tax (CIT) return with some allocation of taxable income to Saskatchewan. It is designed to encourage plant and equipment investment for use in M&P activities in Saskatchewan. The ITC applies as a percentage of the total capital cost of eligible building and machinery and equipment purchases.

The percentage rate of the ITC parallels the rate of the Saskatchewan Provincial Sales Tax (PST). Therefore, for eligible purchases made after October 27, 2006, and before March 23, 2017, the ITC is equal to 5 per cent of the total capital cost of the asset. For eligible purchases made on or after March 23, 2017, the ITC is equal to 6 per cent of the total capital cost of the asset.

As an example, a company purchasing a piece of equipment costing $1,000 after March 23, 2017 would pay $60 PST for a total cost of $1,060. The ITC is calculated as 6 per cent of the $1,060 capital cost, for a credit of $63.60.

The ITC is available for qualifying new M&P equipment and for qualifying used M&P equipment on which PST has been paid.

The M&P ITC is a refundable tax credit, meaning a corporation can receive a rebate for ITCs that exceed the corporation's Saskatchewan CIT liability in a particular taxation year. Prior to 2006, the M&P ITC was a non-refundable tax credit. For eligible capital acquisitions occurring before April 7, 2006, corporations could only use ITCs to lower current year Saskatchewan CIT liability. Any unclaimed credit balances earned prior to April 7, 2006, could be carried forward for up to ten years. ITCs could carry through trusts and partnerships, and through certain corporate wind-ups and amalgamations, but may not be carried back to predecessor corporations.

ELIGIBLE PURCHASES

Eligible purchases of new equipment for the purposes of the ITC are defined as "qualified property" in subsections 127(9), 127(11) and 127(11.1) of the federal *Income Tax Act*. This includes property to be used in Canada primarily for the purpose of manufacturing or processing goods for sale or lease. Eligible used equipment is similarly defined as qualified property in subsection 61.1(1) of *The Income Tax Act, 2000* (Saskatchewan).

Qualified property for the purposes of the ITC does not include property used for storing, shipping, selling or leasing of finished goods; purchasing raw materials; administration; purchase and resale operations; data processing and providing employee facilities.

To qualify for the ITC, eligible purchases must be either:

- a new building or new machinery and equipment, as prescribed in subsections 4600(1) and 4600(2) of the federal *Income Tax Regulations*, that has not been used or acquired for use or lease for any other purpose whatever before it was acquired by a taxpayer; or,

- used equipment which otherwise meets the federal definition of qualified property, and which meets the definition of qualified property in subsection 61.1(1) of *The Income Tax Act, 2000* (Saskatchewan), which includes PST having been paid on the asset.

Eligible purchases must also be for use in Saskatchewan primarily for the purpose of manufacturing and processing of goods for sale or lease, or leased to a lessee who can reasonably be expected to use the property in Saskatchewan primarily for manufacturing and processing of goods for sale or lease.

ELIGIBLE ACTIVITIES

The ITC can be earned through the purchase of qualifying assets to be used in a manufacturing and processing activity. The ITC uses the federal definition of manufacturing and processing. According to federal Income Tax Folio S4-F15-C1, "manufacturing" normally involves the creation of something or the shaping, stamping or forming of an object out of something, while "processing" usually refers to a technique of preparation, handling or other activity designed to effect a physical or chemical change in an article or substance, other than by natural growth.

A number of activities are excluded from the definition of "manufacturing and processing" under subsection 125.1(3) of the federal Act. These excluded activities are farming, fishing, logging, construction, oil and gas extraction and processing, mineral extraction and processing, and activities of corporations whose primary activity is not manufacturing and processing.

ADMINISTRATION

The ITC for qualifying new equipment is administered by the Canada Revenue Agency on behalf of Saskatchewan. It may be claimed by including a completed Schedule 402 with the annual T2 CIT Return. As required under the terms of the *Canada-Saskatchewan Tax Collection Agreement*, definitions contained in the federal *Income Tax Act* have been used for the purposes of the ITC on new equipment.

The ITC for qualifying used equipment is administered by the Ministry of Finance. It must be claimed by applying directly to Finance at the address on the next page.

FOR FURTHER INFORMATION AND FORMS FOR THE ITC FOR NEW EQUIPMENT

Canada Revenue Agency   Telephone: 1-800-959-5525

Internet: https://www.canada.ca/en/revenue-agency.html

Form 402

FOR FURTHER INFORMATION AND FORMS FOR THE ITC ON USED EQUIPMENT

Write: Ministry of Finance
Revenue Division
PO Box 200
REGINA SK S4P 2Z6

Telephone: Toll Free 1-800-667-6102
Regina 306-787-6604

Email: sasktaxinfo@gov.sk.ca

Fax: 306-787-0241

Internet: Tax bulletins, forms and information are available here.

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