

# Information Bulletin

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MP-2

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## SASKATCHEWAN INVESTMENT TAX CREDIT FOR MANUFACTURING AND PROCESSING

This bulletin has been prepared to assist you in applying for the Manufacturing and Processing Investment Tax Credit. It is a general guide and not a substitute for the legislation.

*Changes to this bulletin are indicated by a bar (|) in the left margin.*

The contents of this bulletin are presented under the following sections:

- A. General
- B. Eligible Purchases
- C. Eligible Corporations and Activities
- D. Administration
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### A. GENERAL

The Saskatchewan Manufacturing and Processing (M&P) Investment Tax Credit (ITC) 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, 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 the ITC is equal to 6 per cent of the total capital cost of the asset (including PST).

As an example, a company purchasing a piece of equipment costing \$1,000 would pay \$60 PST for a total capital 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 to M&P corporations that purchase qualifying new or used equipment for use in their M&P activities. PST is required to be paid on all qualifying equipment.

| 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. In order to be eligible for refund, the application must be received within three years of the taxation year end. ITCs could carry through trusts and partnerships, and through certain corporate wind-ups and amalgamations, but may not be carried back to predecessor corporations.

## **B. 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 or leases of equipment must also be available for use in Saskatchewan primarily for the purpose of manufacturing and processing goods for sale or lease. Payments for leased equipment may be claimed by the lessee when applying for an ITC on new or used equipment with the provision that no other ITC has been claimed on the equipment.

## **C. ELIGIBLE CORPORATIONS AND ACTIVITIES**

The ITC can be earned by M&P corporations 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.

A corporation must obtain greater than 10% of its gross revenues from manufacturing and processing activities in order to qualify as a M&P corporation.

