

Program Overview and Application Instructions

This document is for use under the Saskatchewan Chemical Fertilizer Incentive (SCFI) program.

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Financial Programs Branch
1000 – 2103 11th Avenue
Regina, SK S4P 3Z8
Phone: 306-787-7632

PROGRAM OVERVIEW

The SCFI program is a new-growth tax incentive program available to qualifying companies operating in the chemical fertilizer sector. Introduced 2020, the SCFI program is open to corporations with facilities that process eligible chemical fertilizers. The program is effective November 1, 2017. To be considered for eligibility, Applications for Conditional Approval must be received before December 31, 2026.

The goal of the SCFI program is to attract companies to Saskatchewan and secure investments in large-scale chemical fertilizer production facilities. Eligible companies that successfully meet all SCFI requirements will receive a rebate of Saskatchewan corporate income tax paid. This rebate is equal to 15 per cent on eligible capital expenditures for both newly constructed or expanded chemical fertilizer production facilities in Saskatchewan. Eligible capital expenditures must exceed \$10 million.

Once the company has successfully completed the qualifying process and enters production, the SCFI-eligible corporation will be entitled to:

- Choose the taxation year to begin claiming the credit. The sunset date of the program will in no way impact when an SCFI-eligible corporation can begin to claim its SCFI tax credit. The 10-year tax redemption period is initiated upon issuance of an SCFI Certificate of Eligibility;
- Claim up to 20 percent in year one, 30 in year two, and 50 percent in year three, and carry forward any remaining credits for up to 10 years; and
- Claim other tax incentives or grants the Government of Saskatchewan may offer without impacting SCFI eligibility or impairing the ability to claim the SCFI tax incentive.

Before making a submission of any kind to the SCFI program, the applicant should thoroughly review:

- The [program webpage](#);
- [The Saskatchewan Chemical Fertilizer Incentive Act](#) and [Regulations](#); and,
- [The Income Tax Act, 2000](#), section 64.8.

All related documents and forms that are referenced throughout this document can be found on the program webpage:

- [Application for Conditional Approval](#)
- [Request for Certificate of Eligibility](#)
- [SCFI Claim Form](#)

To qualify for the SCFI program, an applicant must submit a complete application that demonstrates the company meets all the following eligibility requirements:

1. Have at least **\$10 million in new eligible capital expenditures**:

Qualifying new capital expenditures are those that are directly related to the investment in the chemical fertilizer activity. “New capital expenditures” means expenditures made by the applicant with respect to the arm’s length acquisition of any real property and depreciable property that is used in Saskatchewan primarily for

eligible chemical fertilizer activity". Examples of eligible and non-eligible capital expenditures are provided in section 3 of *The SCFI Regulations*, as well as later in this document.

2. Meets the requirements of an **eligible chemical fertilizer activity, defined as:**
All processing of mineral or chemical feedstock to create single or multi-nutrient synthetic fertilizer products, but does not include the manufacturing of potash fertilizer products for which potash is the primary feedstock.
3. Can demonstrate an **increase in production capacity** (for expansions to existing facilities).
The applicant must be able to demonstrate that the eligible capital expenditures will result in an increased production capacity. An arm's-length qualified person must complete an assessment of nameplate capacity before and after the investment occurred.

APPLICATION STEPS

The SCFI utilizes a two-step application process.

Step 1: Application for Conditional Approval

Typically, before initiating construction, or shortly thereafter, an applicant corporation submits an *Application for Conditional Approval*, which describes:

- the chemical fertilizer activity to be undertaken,
- the anticipated capital expenditures to be made, and
- where the project is an expansion to an existing facility, the increase that will be made to productive capacity.

The application is reviewed by program administrators. Approved applicants will be issued a Letter of Conditional Approval.

Once an applicant has received the Conditional Approval, the applicant undergoes the construction of the eligible chemical fertilizer facility and brings the facility into working condition.

Step 2: Request for Certificate of Eligibility

After finalizing construction and bringing the facility into working condition, an applicant submits the *Request for Certificate of Eligibility*, which includes:

1. A Compliance Report issued by a third-party Chartered Professional Accountant (CPA), describing the total eligible capital expenditures made
 - The Compliance Report confirms compliance with the eligible and ineligible program expenditures outlined in this document, *The Saskatchewan Chemical Fertilizer Act and Regulations*. The Compliance Report must be prepared in accordance with the Canadian Standards on Assurance Engagements (CSAE), specifically with CSAE 3531, *Direct Engagements to Report on Compliance* or in accordance with the Canadian Auditing Standards (CAS) 805, *Audit of Single Financial Statements and Specified Elements, Accounts or Items of a Financial Statement*. Details regarding these standards are available on [CPA Canada's website](#).

2. In the case of expansions to an existing facility, an Efficiency/Productivity Analysis Summary issued by a licensed engineer, describing the increase to productive capacity
 - A baseline report must be completed prior to initiating the expansion and again following the expansion, which will describe the increase to the productive capacity.
3. If claiming land as an expense, an Appraisal prepared by a licensed real estate appraiser.

The application and supporting information are reviewed by program administrators. Where the project meets all eligibility criteria, a Certificate of Eligibility is issued to the client.

Claiming the Tax Incentive

The SCFI is a tax credit program, allowing claims to be made against Saskatchewan corporate income tax paid.

1. To claim the SCFI, the approved corporation must first file the T2 Corporate Income Tax (CIT) return with the Canada Revenue Agency (CRA). Once the CIT return has been assessed and a T2 Notice of Assessment from the CRA has been received, complete the SCFI Claim Form and submit it to the Ministry of Finance, including a copy of the:
 - SCFI Certificate of Eligibility, and
 - Current year's CRA Notice of Assessment or Reassessment.

A Claim Form must be submitted for each year that the credit is claimed.

2. The Ministry of Finance will verify the Claim Form and provide:
 - A credit calculated in accordance with the program legislation; or
 - A written notice indicating that the corporation is not entitled to the credit and reasons for the determination.

EFFICIENCY/PRODUCTIVITY ANALYSIS SUMMARY

Existing facilities applying for the SCFI must have a baseline and final Efficiency/Productivity Analysis Summary prepared. The baseline report must include the following components:

- Current production line
 - Note all processes undertaken
 - Include a schematic of the current processing line.
- Current issue(s)
 - Identify all areas where significant improvements can be achieved.
- Proposed solution(s)
 - How the issue(s) could be solved
 - Explain the process improvements that can be implemented.
- Efficiency/productivity gains
 - Substantiate productivity gains that will be achieved as a result of the proposed solutions
 - Per cent productivity increase
 - Measurement of increase in quantity or quality of raw and finished product achieved.

Once the planned investment project is completed and the facility is ready to begin operations, the following table must be prepared, which will describe the increases to efficiency/productivity. The submitted report does not need to be in this format, but must include all of the same information.

Work Plan - Equipment - Facility Modification	Example: Grommet packaging unit
Estimated Budget - (\$\$ including installation)	\$15M
Identify & Explain - Process Improvement - Automation/Innovation, or - New Technology	Process improvement and automation: - Will allow grommets to be packaged faster and in consistent package sizes with less wasted product.
Efficiency/Productivity Gain - (Expressed in dollars, per cent or volume) - Increase production capacity - Elimination of wasted inputs - Reduction in processing time	- Production capacity increased by 75% or 500,000 units/year. Market value of \$1,500,000. - Reduced packaging time by 35% due to automation process. - Reduction of wasted final product by 90% or 50,000 units/year. Market value of \$150,000. - Reduce overall production time by 30 minutes per batch (1 hour/day, or 17% less).

In the case of a **new facility**, and only upon the request of program officials, an applicant may be requested to provide this information, which would mostly describe the current production line and productive outputs.

ELIGIBLE EXPENDITURES

The Saskatchewan Chemical Fertilizer Incentive Act and Regulations outline expenditures that are eligible and ineligible for the purpose of the program. The following table outlines additional expenditures as eligible or ineligible. Clarification for expenditures not listed can be received by emailing scfi@gov.sk.ca.

	Eligible	Ineligible
EQUIPMENT		
Used equipment or facilities	X	
Control panels, fans, instruments, pumps	X	
Stationary machinery and equipment for processing	X	
Electrical process controls and monitoring equipment	X	
Electrical communication and control equipment	X	
Data network infrastructure equipment	X	
Oil or water storage tanks	X	
Equipment for reducing, preventing or eliminating pollution	X	
	X	
Major spare parts classified as plant, property and equipment (PPE)		
Any property that can be easily removed from the facility and resold, including: <ul style="list-style-type: none"> • Equipment and furnishings for offices, boardrooms, lunchrooms and retail facilities, [Regulations, 3(1)(d), 3(1)(e), 3(1)(f)] • Power operated movable equipment for excavating, moving, placing or compacting earth, rock, concrete or asphalt [Regulations, 3(1)(g), 3(1)(h)] • Tools • Items considered regular repair or maintenance • Major spare parts that are considered inventory and <u>not</u> classified as PPE • Timber cutting and processing 		X
FACILITIES		
	X	
		X
Retail facilities		X
Buildings not associated with the chemical fertilizer activity		X
INTANGIBLES		
Costs associated with the required reports for the purposes of making an application to the SCFI, including: <ul style="list-style-type: none"> • Compliance Report • Efficiency/Productivity Analysis summary • Appraisal 	X	
Capitalized costs of: <ul style="list-style-type: none"> • Qualified professional services associated with the eligible new capital expenditures and includes costs associated with engineers, surveyor, electricians, pipe fitters, boiler makers, carpenters, etc. [Regulations, 3(1)(b)] • Installation of depreciable property or of a capital lease [Regulations, 3(1)(c)] • Interest 	X	
Non-tangible products, such as intellectual property, franchise, concessions, licenses, certifications (such as Halal, organic, vegan, GMP, HACCP, ISO 2000, etc.) [Regulations, 3(1)(i)]		X
Costs associated with the applicant corporation's staff costs or time		X
Taxes paid (PST, GST, property taxes, etc.)		X

	Eligible	Ineligible
Non-capital lease costs for such things as leases on photocopiers, computers, water heaters/softeners or vehicles. [Regulations, 3(1)(a), 3(1)(l), 3(2)]		X
LAND*		
Land – only the portion of which is used for the new or expanded chemical fertilizer facility* [Regulations, 3(1)(a)]	X	
Land preparation costs for the processing facility, which may include: <ul style="list-style-type: none"> • Earth work • Sloping • Grading • Footings, foundation, buildings and structures required for the processing facility and for the purpose of accommodating an increase to productive capacity 	X	
Logging, mining, construction, oil and gas development or processing		X
TRANSPORTATION		
Parking lots, access roads, perimeter fencing	X	
Freight paid on eligible expenditures	X	
Railcar spurs and railway switches	X	
Vehicles, including railway cars, railway locomotives, automobiles, tractors, trucks, mobile equipment, forklifts, lift trucks [Regulations, 3(1)(e)]		X
UTILITIES		
Utility connections from the property line to the chemical fertilizer facility, including: <ul style="list-style-type: none"> • Water • Telephone • Power • Sewer 	X	
Additional utility connections within the chemical fertilizer facility, including: <ul style="list-style-type: none"> • Electrical • Plumbing • Sprinkler systems • Air conditioning and heating • Lighting • Elevators • Fiber-optics 	X	
Electrical or heat producing, recovery or storage – solar or wind power, geothermal	X	
Water treatment equipment or facilities	X	
MISCELLANEOUS		
Any expenditure that does not add to the productive capacity of the chemical fertilizer facility		X
Sustaining capital		X

*Land that is claimed for the purpose of the SCFI will be assessed at the lower of actual cost and fair market value. Land as an eligible expense may require an appraisal by an appraiser who has designation by the Accredited Appraiser Canadian Institute.

DEFINITIONS

Applicant – The corporation that submits an application to the SCFI program.

Application for Conditional Approval – An applicant submits this form as the first step of the SCFI qualification process. This contains contact person information, company information, details of the planned investment project and the applicant's declaration. If eligible, an applicant will receive a Conditional Approval for their project.

Certificate of Eligibility – An eligible corporation receives this certificate once they have successfully completed the investment project and delivered on commitments set out in the letter of conditional approval. This Certificate entitles them to claim the tax incentives from the Ministry of Finance for a period of 3-10 years.

Commissioning Date – The date that the new/expanded facility is brought into working condition. This excludes the prior use of equipment for testing purposes.

Compliance Report – A common report under Chartered Professional Accountant (CPA) assurance standards, which audits the expenses made relating to the investment project and describes the total eligible capital expenditures made, confirming compliance with this document, The Saskatchewan Chemical Fertilizer Incentive Act and corresponding program Regulations. The Compliance Report must be prepared in accordance with the Canadian Standards on Assurance Engagements (CSAE), specifically with CSAE 3531, Direct Engagements to Report on Compliance. Details regarding these standards are available on CPA Canada's website.

Efficiency/Productivity Analysis Summary – This report is only required where the SCFI application is being made for an existing facility. A common report issued by a licensed engineer, which identifies the measurable increases to productive capacity. A baseline report is completed prior to commencing the investment project, which describes the current process and lists areas that could be improved on to increase efficiency. The final report identifies the efficiencies of the improved process and measures the increase to productive capacity.

Eligible Applicant – An applicant who has been approved for an *SCFI Certificate of Eligibility*.

Letter of Conditional Approval - This letter of approval is conditional upon the applicant completing the work set out in the application and complying with all legislation and regulations associated with the program. This provides applicants a degree of certainty prior to initiating their project.

Productive Capacity – In the case of expansions to an existing facility, there must be an increase to the facility's productive capacity. This refers to the increased production of a new saleable product that was not achieved prior to the project or a significant increase in the quality or quantity of an existing saleable product.

Qualified Capital Expenditures – Please refer to *The Saskatchewan Chemical Fertilizer Incentive Regulations*, section 3 or the last page of this document.

Qualified Person - An auditor, engineer or real estate appraiser who is a member in good standing of a professional association recognized by the minister. The qualified person must be arm's-length from the applicant.

Real Estate Appraisal – A common report issued by an Accredited Appraiser Canadian Institute (AACI™), which for the purpose of this program, will assess and document the land purchased, if any, and confirm that the entire lot of land purchased – or portion thereof – that is being used for the purpose of the new or expanded chemical fertilizer facility. This report will also verify the fair market value of the purchased land.

Request for Certificate of Eligibility – An applicant submits this form to initiate Stage 2 of the application process. This contains information that will show the applicant has completed the proposed investment project. If successful, the applicant will receive a Certificate of Eligibility that allows them to claim their tax incentives.

Sunset – After December 31, 2026, the program will no longer accept *Applications for Conditional Approval*. Those who have received conditional approval remain eligible to submit the *Request for Certificate of Eligibility* once the proposed project is completed.

SCFI Rejection Letter – An applicant receives this notice if it has unsuccessfully completed the *Application Form*, unsuccessfully qualified for conditional approval, or unsuccessfully delivered on their conditions of approval.

FREQUENTLY ASKED QUESTIONS

Can our company apply for this incentive, even if we are receiving tax credits and rebates from other provincial programs?

Yes. The SCFI program is “stackable”, meaning that a company’s eligibility is not affected by eligibly for any other existing incentives. The program is designed to close the competitiveness gap.

Who can I contact with questions in respect to this program?

You may send any questions via email to SCFI@gov.sk.ca. A program administrator will respond or call you to discuss your inquiry.