

Information Bulletin

MP-3

Issued: October 2015

Revised: January 2023

SASKATCHEWAN MANUFACTURING AND PROCESSING EXPORTER TAX INCENTIVE

This bulletin has been prepared to assist you in applying for the Manufacturing and Processing Exporter Tax Incentive. 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. Definitions
- C. Manufacturing and Processing Exporter Hiring Tax Incentive
- D. Manufacturing and Processing Exporter Head Office Incentive
- E. Application

A. GENERAL

The Manufacturing and Processing (M&P) Exporter Tax Incentive provides non-refundable tax credits to eligible corporations that expand the number of their M&P related full-time employees above the number that were employed in 2014. It is designed to promote incremental employment and exports by exporters in the Saskatchewan manufacturing and creative industries sectors. Eligible businesses are those that export to the rest of Canada, or internationally, at least 25 per cent of their manufactured goods each year and that:

- “manufacture or process” goods for sale as defined in the federal *Income Tax Act*; or,
- are principally involved in the commercial development of “new economy” products for export, including interactive digital media products and creative industry products.

The incentive offers eligible businesses non-refundable tax credits equal to \$3,000 in respect of each incremental full-time employee for each of the 2015 through 2022 taxation years.

The M&P Exporter Tax Incentive also provides non-refundable tax credits to eligible corporations that expand the number of their full-time employees who primarily conduct activities that are typically considered to be “head office” functions. This portion of the incentive offers an eligible business non-refundable tax credits equal to \$10,000 in respect of each incremental full-time “head office” employee for each of the 2015 through 2022 taxation years.

Tax credits will be applied against Saskatchewan Corporation Income Tax otherwise payable and unutilized amounts will be carried forward for up to five taxation years. Applications for the

incentive must be received within three years of the taxation year end from which the credit is earned.

The following table provides an illustration of how tax credits could be earned.

M&P EXPORTER TAX INCENTIVE – ILLUSTRATION							Cumulative Tax Credits Available if Unutilized (\$)
Tax Year	Manufacturing			Head Office			
	Employment Level	Incremental Employment	Tax Credits Generated (\$)	Employment Level	Incremental Employment	Tax Credits Generated (\$)	
2014 Base Year	100	--	--	50	--	--	--
2015	110	10	\$30,000	65	15	\$150,000	\$180,000
2016	105	5	\$15,000	50	0	\$0	\$195,000
2017	95	0	\$0	55	5	\$0	\$195,000
2018	115	15	\$45,000	65	15	\$150,000	\$390,000
2019	110	10	\$30,000	60	10	\$100,000	\$520,000
2020	108	8	24,000	50	0	\$0	\$544,000

Note: each year’s employment level is compared to the base year to determine incremental employment.

B. DEFINITIONS

Manufacturing and Processing

According to federal Interpretation Bulletin IT-145R, “manufacturing” is generally defined as the creation of something or the shaping, stamping or forming of an object out of something, while “processing” is generally defined as the 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 or processing” under subsection 125.1(3) of the *Income Tax Act* (Canada). These excluded activities include farming, fishing, logging, construction, oil and gas extraction and processing, and mineral extraction and processing.

Creative Industries

Clause 2(c) of *The Creative Saskatchewan Act* defines “creative industries” to be companies engaged in the development, production, distribution, marketing, sale or exhibition of commercial cultural content, including music and sound recording, film and television, interactive digital media, visual arts and craft, writing and book publishing, and live performing arts or the creation of intellectual property, or the manufacture or export of artistic or cultural products for commercial purposes, including new or hybrid cultural works or products.

Base Year Employment Level

A corporation's base year employment level is its 2014 employment level. For corporations without a 2014 tax year, the base year employment level is deemed to be zero.

Associated Corporation

Associated corporations are those that are associated within the meaning of section 256 of the *Income Tax Act* (Canada).

C. MANUFACTURING AND PROCESSING EXPORTER HIRING TAX INCENTIVE

The M&P Exporter Hiring Tax Incentive provides eligible businesses with \$3,000 in non-refundable tax credits for each incremental full-time employee for the 2015 through 2022 taxation years.

Eligible Corporations

The incentive is provided on a legal corporate entity basis. Eligible corporations are those that are primarily engaged in manufacturing and processing, or undertaking creative industry activities at a facility in Saskatchewan and at least 25 per cent of revenues of that activity are generated through export. The term "primarily" means that at least 50 per cent of a corporation's gross revenues are derived from the sale of its manufactured or processed goods.

Employment Level

Employment level means the number of the eligible corporation's full-time employees working at a facility in Saskatchewan. The employment level is determined as at the end of a taxation year.

Eligible head office employees who do not qualify for the head office incentive because of failure to meet the growth test may be included in the hiring incentive employment level.

The following employees are not eligible for the hiring incentive:

- Business owners;
- Related to the business owners;
- Seasonal, temporary, or independent contractors;
- Employees claimed for the head office incentive; or,
- Employees transferred to an eligible corporation from a related or associated corporation if the transfer has not created net new Saskatchewan-based jobs.

Deeming of Employees of an Associated Corporation

For purposes of determining an eligible corporation's employment level, certain employees of a corporation that is associated with an eligible corporation may be eligible to be deemed to be the employees of the eligible corporation. The eligible corporation will need to provide evidence that deemed employees qualify under the definition of the hiring incentive employment level and are either:

- Permanently or normally assigned to work for the eligible corporation; or,

- Are eligible head office employees that do not qualify for the head office incentive because of failure to meet the growth test.

To ensure employees are not being transferred from one corporation to another, the total employment of all associated corporations must have at least a proportionate incremental increase in employment level in order for the deemed employees to qualify. Intercompany transfers will not qualify if they have not created net new Saskatchewan-based jobs.

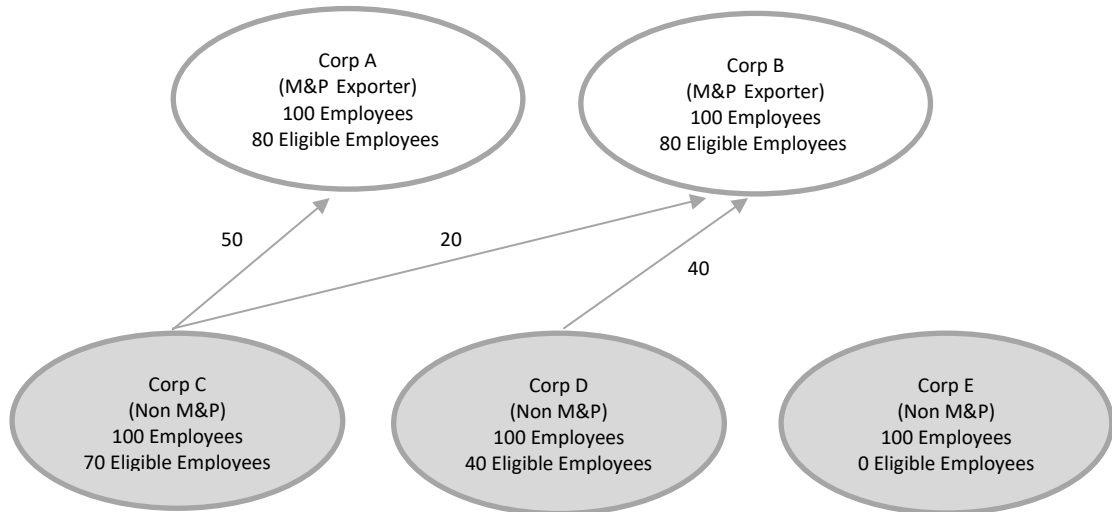
The deeming of employees from associated corporations is a choice to be made by the corporate group. An eligible corporation could choose to file based on its own employment levels without reference to its associated corporations.

Example:

A corporate group of 5 associated corporations has 2 eligible corporations for the hiring incentive (A and B). Corporations C, D, and E are not eligible for the incentive as they are not engaged in M&P activity. Two of the ineligible corporations (C and D) have employees who qualify under the definition of employment level for the hiring incentive and who are permanently or normally assigned to work for the eligible corporations. The corporate group requests that the eligible employees of the ineligible associated corporations be deemed to be employed by the eligible corporations for the purposes of the hiring incentive. The minister accepts the request and deems the employees to be the employees of the eligible corporations.

a) Base Year Employment Level

The corporate group has 500 employees.

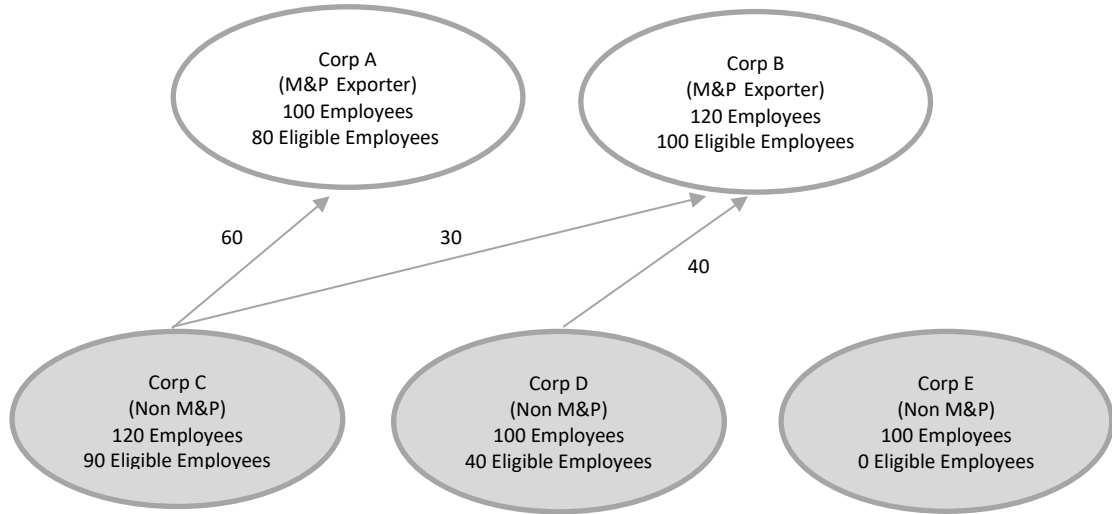


The eligible corporations would calculate their base year employment level to be:

Eligible Corporation	Base Year Employment Level
Corporation A	80 + 50 = 130
Corporation B	80 + 20 + 40 = 140

b) Current Year Employment Level and Incremental Employment

In Year 1 of the incentive, eligible corporation B and ineligible corporation C hire an additional 20 full-time employees each. The total employee count of the corporate group (540) has increased proportionately to the net incremental growth of the qualifying corporations (40).



The eligible corporations would calculate their current year employment level and tax credits as:

Eligible Corporation	Base Year Employment Level	Current Year Employment Level	Incremental Growth	Tax Credits Generated
Corporation A	130	80 + 60 = 140	10	\$30,000
Corporation B	140	100 + 30 + 40 = 170	30	\$90,000

D. MANUFACTURING AND PROCESSING EXPORTER HEAD OFFICE INCENTIVE

The M&P Exporter Head Office (HO) Incentive provides eligible businesses with \$10,000 in non-refundable tax credits for each incremental full-time “head office” employee for the 2015 through 2022 taxation years.

Eligible Corporations

The incentive is provided on a legal corporate entity basis. Eligible corporations are those that are primarily engaged in manufacturing and processing, or undertaking creative industry activities at a facility in Saskatchewan and at least 25 per cent of revenues of that activity are generated through export. The term “primarily” means that at least 50 per cent of a corporation’s gross revenues are derived from the sale of its manufactured or processed goods.

For the HO incentive, eligible corporations must have an office located in Saskatchewan where at least 10 employees with a current payroll of at least \$1,000,000 are performing at least five of nine prescribed HO functions.

An expansion will only qualify for the incentive if incremental staffing equals the greater of 10 new employees and a 20 per cent increase over the 2014 base level of employment. A new “head office” will only qualify if it consists of a minimum of 10 employees performing the designated head office functions with a payroll exceeding \$1,000,000.

Corporations applying for a Certificate of Eligibility for the HO incentive must have reached the growth threshold in order to receive a Certificate of Eligibility.

Designated Head Office Functions

Designated head office functions include:

- Strategic planning;
- Corporate communications;
- Taxation;
- Legal;
- Marketing;
- Finance;
- Human Resources;
- Information Technology; and,
- Procurement.

Employment Level

Employment level is the number, as at the end of a taxation year, of the eligible corporation’s full-time employees who ordinarily perform a designated HO function at a single location in Saskatchewan.

HO employees who do not qualify for the head office incentive because of failure to meet the growth test may be included in the hiring incentive employment level.

The following employees are not eligible for the head office incentive:

- Business owners;
- Related to the business owners;
- Seasonal, temporary or independent contractors;
- Employees claimed for the hiring incentive; or,
- Employees transferred to an eligible corporation from a related or associated corporation if the transfer has not created net new Saskatchewan-based jobs.

Deeming of Employees of an Associated Corporation

For purposes of determining an eligible corporation’s HO employment level, certain employees of a corporation that is associated with an eligible corporation may be eligible to be deemed to be the employees of a **single eligible corporation for the duration of the program period**.

The eligible corporation will need to provide evidence that deemed employees qualify under the definition of HO employment level and are either:

- Permanently or normally assigned to work for the eligible corporation; or,
- Directly supporting the eligible corporation.

To ensure employees are not being transferred from one corporation to another, the total employment of all associated corporations must have at least a proportionate incremental increase in employment level in order for the deemed employees to qualify. Intercompany transfers will not qualify if they have not created net new Saskatchewan-based jobs.

The deeming of employees from associated corporations is a choice to be made by the corporate group. An eligible corporation could choose to file based on its own employment levels without reference to its associated corporations.

To determine the eligibility of HO employees for the deeming provision, a corporate group would:

- Determine whether HO activities are being conducted in Saskatchewan at an associated corporation on behalf of an eligible M&P corporation;
- Determine whether the HO has at least 10 employees conducting five or more of the nine prescribed HO activities and a current payroll of at least \$1,000,000;
- Determine the number of eligible employees conducting these HO activities (for the purposes of the employment level count);
- Determine whether the number of current year HO employees meets the minimum threshold growth requirements to be a qualifying HO (the current year employment level exceeds the base year employment level by the greater of 10 employees and a 20 per cent increase in the base year employment level);
- Determine whether the HO employees should be deemed to be employees of an eligible M&P corporation; and,
- Request that certain HO employees be designated as employees of **a single eligible M&P corporation for the duration of the program period.**

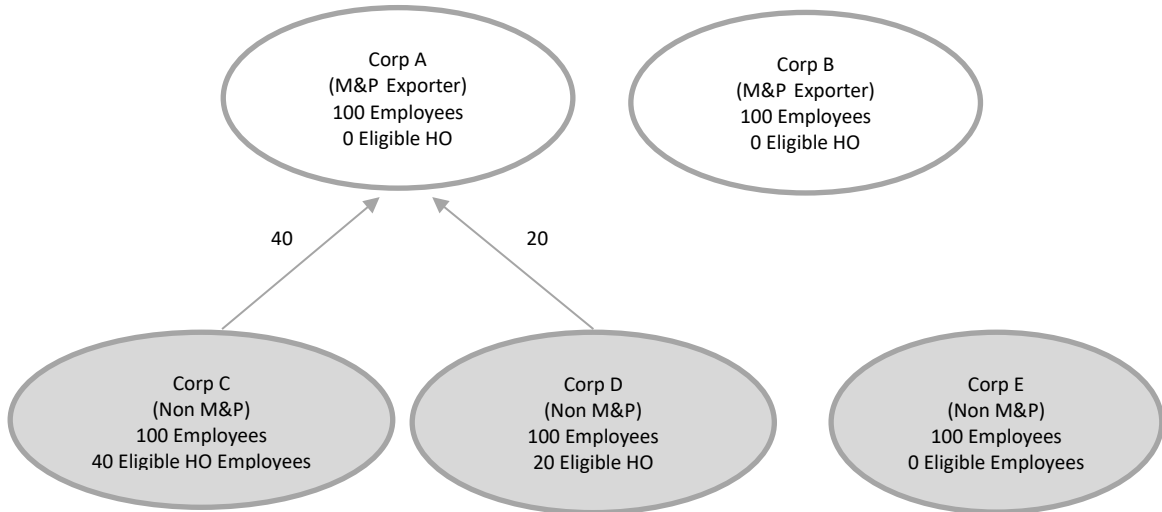
In subsequent taxation years, the eligible M&P corporation would apply the HO growth test (the greater of 10 additional staff and a 20 per cent increase in HO staff and a staff payroll exceeding \$1,000,000) to its HO employment level.

Example:

A corporate group of 5 associated corporations has 2 corporations that are engaged in M&P activities with at least 25% of those revenues from export (A and B). Corporations C, D, and E are not eligible for the incentive as they are not engaged in M&P activity. Two of the ineligible corporations (C and D) have HO employees who qualify under the definition of employment level for the HO incentive and who are directly supporting the eligible associated corporations. It is determined that if the HO employees are deemed to be employees of corporation A, then that corporation will meet the definition of eligible corporation for the head office incentive. The company requests that certain HO employees are deemed to be employees of Corporation A for the duration of the five-year program period. The minister accepts the request and deems the HO employees to be employees of the eligible corporation.

a) Base Year Employment Level

The corporate group has 560 employees.

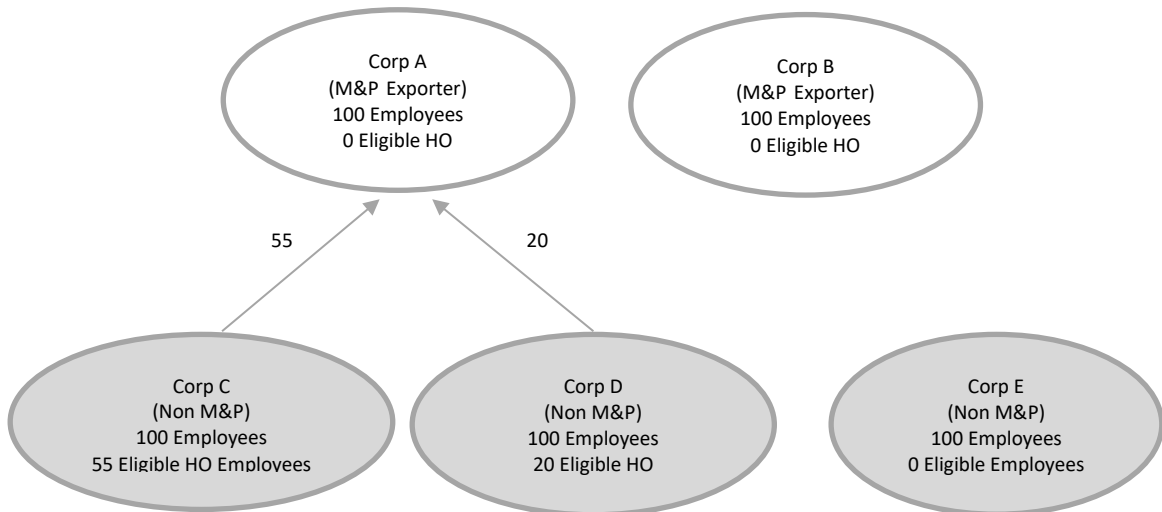


The eligible corporations would calculate their base year employment level to be:

Eligible Corporation	Base Year Employment Level
Corporation A	40 + 20 = 60

b) Current Year Employment Level and Incremental Employment

In Year 1 of the incentive, ineligible corporation C hires 15 eligible head office employees. The total employee count of the corporate group (575) has increased proportionately to the net incremental growth of the qualifying corporations (15).



Corporation A would calculate their current year employment level and tax credits as:

Eligible Corporation	Base Year Employment Level	Current Year Employment Level	Incremental Growth	Tax Credits Generated
Corporation A	60	55 + 20 = 75	15	\$150,000

E. APPLICATION

To apply for a manufacturing and processing exporter tax incentive:

1. Apply to the Ministry of Trade and Export Development for a Certificate of Eligibility. Include a copy of the base year (2014) T4 Salaries and Wages Summary as submitted to Canada Revenue Agency (CRA).

If you are an eligible corporation utilizing the deeming provision, include a copy of:

- the base year (2014) T4 Salaries and Wages Summary for each associated corporation of the corporate group, and,
 - the base year (2014) T2 Corporation Income Tax Return Schedule 9 - Related and Associated Corporations.
2. If your corporation meets the initial eligibility criteria, the Ministry of Trade and Export Development will issue a Certificate of Eligibility that will establish the base year (2014) employment levels.
 3. File the current year corporation income tax return with CRA.
 4. Once the current year corporation income tax return has been assessed and a T2 Notice of Assessment from CRA has been received, submit a Saskatchewan Manufacturing and Processing Exporter Tax Credit Claim Form to the Ministry of Finance. Include a copy of the:
 - Certificate of Eligibility as issued by the Ministry of Trade and Export Development;
 - Current year T4 Salaries and Wages Summary as submitted to CRA;
 - Current year T2 Corporation Income Tax Return;
 - Current year Notice of Assessment or Reassessment; and the,
 - Current year financial statements as presented to shareholders.

If you are an eligible corporation utilizing the deeming provision, include a copy of:

- T4 Salaries and Wages Summary for each associated corporation of the corporate group,
- the T2 Corporation Income Tax Return Schedule 9 - Related and Associated Corporations.

A claim form will need to be submitted for each eligible year.

5. Finance will verify the claim form and provide:

- A tax rebate of taxes paid calculated in accordance with program legislation; or,
- A written notice indicating that the corporation is not entitled to the rebate and the reasons for the determination.

FOR FURTHER INFORMATION ON THE CERTIFICATE OF ELIGIBILITY APPLICATION

Write: Ministry of Trade and Export Development Telephone: (306) 221-6184
M&P Exporter Tax Credit Program
1000, 2103-11th Ave
REGINA SK S4P 3Z8 Email: MPexporter@gov.sk.ca

Internet: The [Saskatchewan Manufacturing and Processing Exporter Certificate of Eligibility Application Form](#) is available on the Internet at Saskatchewan.ca/business/taxes-licensing-and-reporting

FOR FURTHER INFORMATION ON THE TAX CREDIT CLAIM FORM

Write: Ministry of Finance Telephone: Toll Free 1-800-667-6102
Revenue Division Regina 306-787-6645
PO Box 200
REGINA SK S4P 2Z6 Email: sasktaxinfo@gov.sk.ca

Internet: The [Saskatchewan Manufacturing and Processing Exporter Tax Credit Claim Form](#) is available on the Internet at Saskatchewan.ca/business/taxes-licensing-and-reporting.

Tax bulletins, forms and information are available at www.sets.saskatchewan.ca/taxinfo.

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Government website: Saskatchewan.ca