

Reinstate the Alberta Investment Tax Credit (2023)

Issue

The development of the “non-traditional” sectors of Alberta’s economy has traditionally been a significant challenge for entrepreneurs who have chosen to bring their business concepts to market in Alberta. The most significant challenge for emerging businesses has largely been access to capital to support business sustainability in the developmental years of an emerging venture. The introduction of the Alberta Investment Tax Credit (AITC) provided an opportunity to attract non-government investment at a nominal cost to the provincial purse. A reinstatement of this tax credit would simply place Alberta entrepreneurs on a similar footing with competing jurisdictions with a nominal cost to the fiscal purse.

Background

The AITC was introduced on January 1, 2017, as a component of the *Investing in a Diversified Economy Act*, which had a stated objective of boosting investment in Alberta’s small and medium sized businesses, drive innovation, diversify the economy and create new jobs²²⁶ outside of the traditionally dominant oil and gas industry and broader resource sector. The introduction of the legislation in 2017 was effectively retroactively applied to April of 2016 and was largely modeled after legislation that has been in place in other competing provinces for several years.²²⁷ The operation of the AITC program was relatively straightforward as it provided eligible individual and corporate investors in emerging corporations substantially engaged in “eligible business activities”²²⁸ (which includes research, development and commercialization of proprietary technologies) with a 30% non-refundable tax credit to be applied against Alberta income tax payable by the individual or corporation. The credit was structured in a manner that would allow for unused credits to be carried forward up to 5 years by the individual or corporate investor.

In August of 2019, the government of Alberta announced that the AITC would be phased out beginning effective October 24, 2019 with no additional funding being provided after March 30, 2020 and no approvals being provided for applications submitted subsequent to October 24, 2019.²²⁹ This sudden reversal of an established policy presented significant challenges for companies in the process of qualifying for the credit or as a start-up entity had budgeted for investment capital that was contingent on the investor(s) accessing the preferential tax credit.

In response to the objections voiced by industry at the loss of the AITC, the government pointed to the overall incentivization of business growth in Alberta represented by the “Job Creation Tax Cut” which implements saw the general corporate income tax rate reduced from the pre-July 1, 2019 rate of 12% to 8% by July 1, 2020. While this proposed reduction in the general corporate

²²⁶ “The Alberta Investor Tax Credit” by Rhea Solis – Miller Thomson, April 2017, Securities Practice Notes, p.1

²²⁷ Refer to the B.C. Investment Tax Credit Program, the Manitoba Small Business Venture Capital Tax Credit, the New Brunswick Small Business Investor Tax Credit and the Ontario Innovation Tax Credit.

²²⁸ “Alberta Investor Tax Credit Program” Guidelines by Alberta Treasury Board and Finance, January 2019, pp.10-11

²²⁹ Alberta Treasury Board & Finance, “Alberta Investor Tax Credit (AITC)”, 2019, <https://www.alberta.ca/alberta-investor-tax-credit.aspx> (accessed February 10, 2020).

income tax rate is laudable, with the overall objective of creating in excess of 50,000 jobs over the projected period, this cut does very little to stimulate capital investment in burgeoning non-traditional sectors of the economy. This tax cut is applicable only to taxable income that is **not** subject to the small business rate (taxable income in excess of \$500,000) which is representative of a particular subset of the Alberta economy that generally excludes start-up entities in emerging non-traditional sectors of the economy. In most instances, start-up companies require a number of years to reach levels of profitability that would allow them to access the reduced levels of corporate tax rates at the general rate level. What is desperately needed by these corporations is start-up and venture capital that is sadly lacking in Alberta and has been largely the domain of venture/vulture capitalists or angel investors.

While the government continues to be cost-conscious with respect to program evaluation and spending decisions, we believe that the relative cost-benefit of the program warrants the reinstatement of the non-refundable tax credit. The total tax expenditure relative to the program for 2019 was a mere \$12.7 million²³⁰ which represents approximately 17% of the total government expenditure commitment to investment attraction and less than 1% of the aggregate cost of the Job Creation Tax Cut. With the potential for the AITC to create up to 4,400 new jobs over three years and contribute up to \$500 million to Alberta's GDP,²³¹ the program appears to be relatively cost-efficient with the potential to provide full cost recovery with the additional corporate tax revenue generated by the start-up entities created under the program.

In addition to the Job Creation Tax Cut as an alternative, the government has also suggested that the AITC program was overly cumbersome in design and implementation with the qualification process delaying a significant number of applications by potential eligible corporations for several months. With the commitment of the current government to the reduction and potential elimination of red tape the Alberta Chambers of Commerce believes that a redesign of the qualification and approval process for eligible participants as well as venture capital participants could lead to a streamlined and effective means of restoring a positive investment flow to non-traditional start-ups in Alberta.

The government has also offered that the *Innovation Employment Grant* introduced in December of 2020 would also provide technology and innovation-based Alberta corporations with financial assistance to conduct qualifying research and development activities. The Alberta Chambers of Commerce believes that, although this is a valuable program, it does little to stimulate valuable investment from outside of the government fisc.

The Alberta Chambers of Commerce recommends that the government of Alberta:

1. Work with subject matter experts to effectively design a streamlined application and approval process with respect to renewed Alberta Investment Tax Credit program;
2. Reinstatement of the Alberta Investor Tax Credit program with the requisite changes necessary to streamline the implementation and administration of the program; and,
3. Commit to re-evaluating the program at the end of the program term with the option to extend the program on an annual basis.

²³⁰ Alberta Treasury Board & Finance, Budget 2019-2020 – Income Tax Annex, p.157

²³¹ “The Alberta Investor Tax Credit” by Rhea Solis – Miller Thomson, April 2017, Securities Practice Notes, p.1