

**MANITOBA FINANCE
ADMINISTRATIVE NOTICE ON CORPORATE TAXATION**

Regarding: Manitoba Research and Development Tax Credit of The Income Tax Act (Manitoba)

In response to changes announced in the 2012 federal budget respecting scientific research and experimental development and the federal investment tax credit, Manitoba Budget 2013 announced the following:

“The Manitoba Research and Development Tax Credit is being amended to, in part, parallel the federal Scientific Research and Experimental Development Tax Credit changes.

“The federal budget removed capital expenditures from the federal investment tax credit base, but Manitoba is not adjusting its tax credit for this change. In addition, contract payments to eligible institutes will remain fully eligible for the Manitoba tax credit.

“The 2012 federal budget also announced that the Scientific Research and Experimental Development Tax Credit will be adjusted to reduce the 65% prescribed proxy amount – which recognizes overhead costs attributable to eligible projects – from 65% to 60% of direct labour costs in 2013 and to 55% starting in 2014. In addition, contract payments will be 80% claimable instead of fully claimable, so that tax credits will no longer include the profit element under the contract fees. The Manitoba Research and Development Tax Credit will reflect these changes.”

After several inquiries and discussions between Manitoba Finance and the Canada Revenue Agency, we have concluded that the 2013 changes to the definition “eligible expenditure” in section 7.3 of The Income Tax Act do not fully and accurately reflect the changes announced in the 2013 budget. Budget 2018 announced that amendments would be made to correct the Manitoba tax credit legislation.

The amendments will be introduced in the 2018 budget implementation Bill which is expected to be tabled in the legislature in October. In the meantime, to provide taxpayers, tax preparers, and tax planners with more precise information to accommodate current filing requirements, we wish to advise that the 2018 budget implementation Bill will include amendments to the definition “eligible expenditure” to ensure that:

- expenditures on first term and second term shared-use equipment will be eligible;
- in order for a capital expenditure to be eligible
 - it must be for depreciable property other than land or a leasehold interest in land,

- the property must be acquired and considered to be available for use within the meaning of s. 13(27) of the federal Act before the expenditure is eligible, and
- all or substantially all of the expenditure must be in relation to research and development carried on in Manitoba.

For prior taxation years, if a credit was claimed for a depreciable property that did not become available for use before the end of the year in which it was acquired, the credit will remain valid if the property became available for use before Budget Day, March 12, 2018.

Manitoba Finance regrets any confusion created by the differences between policy intentions announced in Budget 2013 and the legislative amendments enacted at the time.

For further information, please contact Manitoba Finance at the location below.

Manitoba Finance
May 30, 2018

Contact:

Taxation Analysis Branch
Finance Research Division
Manitoba Finance
feedbackfin@gov.mb.ca
Telephone: 204-945-3757