Saskatchewan Technology Start-up Incentive (STSI)

Program Guide

1. Program Overview:

The Saskatchewan Technology Start-up Incentive (STSI) is an initiative that will encourage investment in early-stage technology startups that will bring new products and services to market and create jobs in Saskatchewan. The program was announced on April 10, 2018 as part of the 2018-2019 budget. STSI will start accepting applications on October 1, 2018.

The STSI is a two-and-a-half-year pilot program that offers a non-refundable 45 per cent tax credit for individual, corporate, or venture capital corporations that invest in eligible technology-based startup businesses (ESBs). An investor can earn a maximum of $225,000 in tax credits per investment in an ESB and claim a maximum of $140,000 per tax year. An investor can carry tax credits forward for up to four years.

The maximum amount an ESB can raise under the program is $1 million.

The STSI will be offered on a first-come, first-served basis and has a budget of $7 million over two-and-a-half-years.

The following are the steps to the program for Startup Businesses:

1. A startup business creates a user profile through the STSI online application portal.
2. The startup business fills out the Technology Company Application form.
3. The startup business receives notification of eligibility in the STSI program from the STSI program administrator.
4. The Eligible Startup Business (ESB) seeks investment capital from an eligible investor.
5. When a willing investor(s) has been identified, a Term Sheet or Letter of Intent (LOI) is created and agreed upon between the ESB and investor.
6. The ESB fills out the Tax Credit Certificate application on behalf of investor(s) and submits the Tax Credit Certificate Application, along with the Term Sheet or LOI to the STSI program administrator to request issuance of a Tax Credit Certificate.
7. The ESB will have 30 days from the approval of the Tax Credit Certificate Application to receive the investment from their investor(s).
    a. If the investment is not received within 30 days, the investment approval will expire and the ESB must reapply for a Tax Credit Certificate.
    b. The ESB must provide proof to the STSI program administrator within 40 days of the Tax Credit Certificate approval that investment has been received. Proof that the investment has been transferred into the ESB's bank account required by either a copy of the fund transfer or a copy of the ESB's bank

statement. It must be clear to the STSI program administrator who the individual investments are coming from – a lump sum deposit into a bank account is not sufficient proof. The proof can be either in the form of a copy of the cheque, or a deposit slip provided by the bank, as well as a copy of the bank statements showing the deposits have occurred. The proof must come from a third party (ie., The bank) in order to be approved.

   c. The STSI Tax Credit Certificate will only be issued upon proof that the investment was received within 30 days.

8. Once the STSI program administrator has received satisfactory proof of investment, the STSI program administrator will issue the Tax Credit Certificate.
9. The ESB then provides the Tax Credit Certificate(s) to the individual investors.

The following are the steps to the program for Investors:

1. An investor creates a user profile through the STSI online application portal.
2. The investor fills out the Investor Application form.
3. The investor receives notification of eligibility for the STSI program from the STSI program administrator.
4. The investor seeks Eligible Startup Business(es) (ESB) to invest in.
5. Once an ESB is found, a Term Sheet or LOI is created and agreed upon.
6. The ESB then completes the tax credit application on behalf of the investor and submits the Tax Credit Certificate application, along with the Term Sheet or LOI to the STSI program administrator to request issuance of a Tax Credit Certificate.
7. The ESB has 30 days from the approval of the Tax Credit Certificate application to receive the investment from their investor(s).
   a. If the investment is not received within 30 days, the investment approval expires and the ESB must reapply for a new Tax Credit Certificate.
   b. The STSI Tax Credit Certificate will only be issued upon proof that the investment was received within 30 days.
8. The ESB will provide the Tax Credit Certificate(s) to the individual investor(s).
9. The investor(s), at the end of their tax year, applies to the Ministry of Finance for their tax credit through a rebate application.

The following are the steps to the program for Venture Capital Corporations:

1. A Venture Capital Corporation (VCC) creates a user profile through the STSI online application portal.
2. The VCC fills out the Investor Application form.
3. The VCC receives notification of eligibility in the STSI program from the program administrator.
4. The VCC seeks Eligible Startup Business(es) (ESB) to invest in.
5. Once an ESB is found, a Term Sheet or LOI is created and agreed upon.
6. The VCC then fills out the Tax Credit Certificate application on behalf of the individual investors in the VCC and submits the Tax Credit Certificate application, along with the Term Sheet or LOI for each investment (or each tranche of a rolling

round of investment), to the STSI program administrator to request issuance of Tax Credit Certificate(s).
7. The ESB has 30 days from the approval of the Tax Credit Certificate application to receive the investment from the VCC.
    a. If the investment is not received within 30 days, the investment approval will expire and the ESB must reapply for a new Tax Credit Certificate.
8. The STSI Tax Credit Certificate will only be issued upon proof by the ESB that the investment was received within 30 days.
9. The VCC provides the Tax Credit Certificates to the individual investors.
10. The individual shareholders in the VCC, at the end of their tax year, apply to the Ministry of Finance for their tax credit through a rebate application.

2. Eligibility Criteria:

Investor eligibility is limited to investors who pay personal or corporate taxes in Saskatchewan and invest in ESBs based in Saskatchewan.

2.1. Companies

In order to be eligible to register under the STSI as an ESB, a business must:

- have fewer than 50 employees, including full time, part time, and contract workers;
- at least 50% of employees must be based in Saskatchewan;
- have a permanent establishment in Saskatchewan;
- have not previously raised more than $5 million in equity capital; and,
- must be a technology-based startup, with a novel technology for sale or under development for sale as a new product or service. The technology can be from any industry as long as a company is actively developing a novel technology as a new product or service.

Please note:

- For registration, the ESB will be required to produce a copy of its most recent annual financial statements, and a financial forecast if available.
- If an ESB has not received investment within two years of becoming eligible under the STSI, the ESB must reapply to the STSI program to remain eligible.

2.2. Investors

Both individuals and corporations may invest under the STSI. This includes:

- Accredited investors (ie. Angel investors);
- Corporate investors;
- Venture capital corporations; and,

- Close family, friends, and business associates of the promoters of the ESB, provided they satisfy the exemption requirements laid out in *The Securities Act, 1988* as specified by the Financial and Consumer Affairs Authority of Saskatchewan.

To be eligible to register under the STSI as a VCC, a business must:

- track eligible investor contributions to invested ESBs;
- must have equity capital of at least $25,000 at the time of registration;
- have a share structure consisting of common shares having no special rights or restrictions and/or common shares having special rights relating only to the redemption of the shares by the corporation;
- an existing venture capital corporation may need to establish a separate fund for the purposes of raising funds to invest in an ESB; and,
- the funds intended for ESB investment may not receive tax credits from other incentive programs

Please note:

- An investment into an ESB must be held for two years from the date of the share issuance. If the investor's equity share is sold or transferred to a new owner within the hold period, the tax credit reimbursement previously granted to the investor must be repaid.
- An investor must not own shares, directly or indirectly, carrying 50% or more of the voting rights of the ESB either alone or in conjunction with one or more related person. This means two or more related investors cannot come together to own more than 50% of the shares of an ESB. This also applies to Venture Capital Corporations.
  - A related person includes: individuals connected by blood relationship, marriage or common-law partnership or adoption, a corporation, or any two corporations, as per *The Income Tax Act, Canada*.
- Equity shares may be direct equity in the ESB or may be other convertible instruments such as Convertible Notes or simple agreement for future equity (SAFE) notes. It is defined as a share or class of shares, whether or not the share carries voting rights.

3. Program Retroactivity:

The STSI is retroactive to April 11, 2018. However, tech startups and investors having consummated investment arrangements in the interim will have to apply and qualify for STSI eligibility.

4. Funding

There is no minimum investment required by the STSI program.

Stacking Policy:

- Applicants applying to both STSI and the Saskatchewan Advantage Innovation Fund (SAIF) are limited to a lifetime cap of $450,000 combined between the two programs (ie. STSI $200,000 + SAIF $250,000). The total amount of funding stacked will be calculated by adding the contribution being requested under SAIF to the total amount of tax rebates the primary proponent's investors are slated to receive under STSI. It is highly recommended that applicants applying to both SAIF and STSI contact the program manager.

For individual or corporate investors:

- There is a maximum of $225,000 in tax credits that can be earned per investor in an ESB.
- There is no limit on the amount an investor can invest into an ESB.
- The maximum tax credit an investor can claim in a tax year is $140,000.
- Tax credits may be carried forward for up to four years, which means that an investor may receive a $140,000 tax credit in year one and $85,000 tax credit in year two.
- An ESB may raise up to $1 million in direct investment under the STSI program.
- Companies that have raised more than $5 million in equity capital in their lifetime are not eligible under the STSI program.

For VCCs:

- There is a maximum of $225,000 in tax credits that can be earned per investor in an ESB.
- There is no limit on the amount an investor can invest into an ESB.
- The maximum tax credit that an investor can claim in a tax year is $140,000.
- Tax credits may be carried forward for up to four years, which means that an investor may receive a $140,000 tax credit in year one and $85,000 tax credit in year two.
- An ESB may raise up to $1 million in direct investment under the STSI program.
- An ESB may not raise more than $5 million in equity capital to remain eligible under the STSI program.
- A VCC cannot take up more than 33% of the available tax credit funds per year.
- A VCC's ESB investments are not eligible to receive tax credits from other incentives programs

5. Tax Credits Redemption

Each investor will provide their personal and/or corporate information to the ESB or VCC who will then apply for the Tax Credit Certificate on behalf of the investor.

The tax credit will then be issued to the ESB or VCC who will provide it to the investor.

Eligible Startup Businesses (ESBs):

- Registered ESBs must apply for a Tax Credit Certificate on behalf of their investors for eligible investments made under the STSI program.
- The ESB must include the LOI and/or Term Sheet from the investor with their STSI tax credit application.
- The STSI Tax Credit Certificate application can be found on the STSI program’s webpage.
- Once the application is complete, the ESB will submit the Tax Credit Certificate application to the STSI program administrator to request issuance of a Tax Credit Certificate.
- The ESB will have 30 days from the approval of the Tax Credit Certificate application to receive the STSI investment from their investor(s).
- If the investment is not received within 30 days, the investment approval will expire and the ESB must reapply for a Tax Credit Certificate.
- The STSI Tax Credit Certificate will only be issued upon proof that the investment was received within 30 days.

Please note:

- For rolling rounds, an ESB must apply for a Tax Credit Certificate for each round of investment they receive.

Venture Capital Corporations (VCCs):

- Registered VCCs must apply for a Tax Credit Certificate on behalf of their equity shareholders for eligible STSI investments.
- The VCC must include the LOI and/or Term Sheet in their application.
- The application can be found through the online application portal on the STSI program webpage. (*link will be added when available)
- Once the application is complete, the VCC submits it through the online application portal for issuance of a STSI Tax Credit Certificate.
- The ESB will have 30 days from the approval of the Tax Credit Certificate application to receive the STSI investment from the VCC.
- If the investment is not received within 30 days, the investment approval will expire and the VCC must reapply for a STSI Tax Credit Certificate.
- The STSI Tax Credit Certificate will only be issued upon proof that the investment was received within 30 days.

Please Note:

- Only investors who hold a Saskatchewan tax base will be eligible for a tax credit under the STSI program.
- The VCC can be made up of outside investors, but the STSI tax credit will only be applicable to Saskatchewan tax payers.

- The STSI tax credits will be issued based on the individual amounts that individuals within the VCC invested in an ESB.
- Once the STSI Tax Credit Certificate has been received by the investor, at the end of the investor's tax year, the investor will present the Certificate and Notice of Assessment to the Ministry of Finance, for processing of the tax credit.
- All investors will be required to fill out a rebate application form available from the Ministry of Finance in order to receive the tax credit.

6. Reporting Requirements:

6.1 Eligible Startup Businesses

- Within six months of its fiscal year end, an ESB must prepare an annual return and file it with the STSI program administrator.
- In that, it must include a copy of the:
  - most recent financial statements of the ESB; and,
  - most recent annual return of the ESB filed in accordance with *The Business Corporations Act.*

Please note:

- An annual return prepared in accordance with generally accepted accounting principle by Charter Professional Accountants of Canada will be required. A Notice to Reader with supporting notes will be acceptable.

6.2 Venture Capital Corporations

- Within six months of its fiscal year end, a VCC must prepare an annual return and file it with the STSI program administrator.
- In that, it must include:
  - the amount of equity capital raised by the VCC;
  - the aggregate value at cost of investments made by the venture capital corporation, the name of each eligible startup business the shares of which the VCC sold and the value at cost of those shares;
  - the aggregate amount of expenses incurred by the VCC and the amount paid as management fees;
  - whether any fees or remuneration were paid to the shareholders, officers, or directors of the VCC or to any associate or affiliate of any of them by an eligible startup business in which the VCC made an eligible investment;
  - whether the articles of the VCC were amended in a manner that changed the share structure of the VCC or altered any rights or restrictions attached to any share of the VCC;
  - the amount of all dividends received by the VCC with respect to an eligible investment made by it in an eligible startup business;

- whether the VCC redeemed any of its shares;
- whether a share redemption was reported to the minister;
- if the share redemption was not reported, it must include:
  - the name of each investor whose shares were redeemed;
  - the date of each redemption;
  - the number of shares redeemed in each redemption;
  - the investor's cost of each share redeemed in each redemption; and,
  - the consideration paid by the VCC with respect to the redemption;
- whether the VCC paid any expenses to any person or group of persons who, on the date on which the payment was made, directly or indirectly controlled the VCC.

7. How to Register:

- Click on the Online Application Portal under the 'How to Apply' section on www.innovationsask.ca/technology/stsi
- This will take you to a login page where you can sign up, if it is your first time, or sign in, if you have previously set up an account.
- To sign up, create an account with your first name, email address, and password.
- Once you sign up, you are directed to the STSI Forms page.
- From there, choose whether you are a technology company or an investor on the left-hand side.
- You then fill out the application form. You may save the form at any point and return to it.
- Once the form is submitted, you will receive an email confirmation stating the form has been received.