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Q&A

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Q: Provincial Government investment tax credits can be an attractive feature of any equity investment, particularly for Angel investors, who risk their own personal capital on start-up companies. How and when can Angels in BC maximize these tax benefits?

ASK A LAWYER

A: A significant trend that is unique to BC is the expectation on the part of the Angel community that an investee company will have obtained an allocation of investment tax credits through the BC Investment Capital Branch's small business venture capital program. It's a tremendously effective program that allows the Angel investor to obtain a 30% fully refundable tax credit on the total amount of his or her investment.

Historically, these tax credits had only been available to an Angel or groups of Angels through the use of a special corporate vehicle known as a venture capital corporation or VCC. However, in 2003, the BC Government created a new program that made tax credits available to investors without the necessity of using a VCC. This "direct investment" model led to the widespread use of tax credits by early stage technology companies to attract Angel capital. These changes resulted in the program becoming somewhat of a victim of its own success; in 2006, the tax credits were used up eight months into the program year. This year, the tax credits ran out only four months into the program year.

Angels need to take advantage of the tax credit window early in the calendar year. Accordingly, entrepreneurs need to have their business plans prepared well in advance, since Angel activity tapers off significantly once the tax credits run out. Obviously more tax credits need to be made available to meet the current appetite for Angels to invest their money in new ventures.

Keith Spencer is recognized by LEXPERT as a 2007 Leading Canadian Lawyer in Technology.

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