



TaxNewsFlash

Canada

Alberta Innovation Employment Grant — Do You Qualify?

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Alberta-based companies may now be eligible for a new refundable tax credit worth up to 20% of their qualifying research and development (R&D) costs. The new Alberta Innovation Employment Grant (IEG), which came into effect on January 1, 2021, provides phased funding for qualifying small and medium-sized corporations. Corporations who qualify for the grant could receive an amount equal to 8% of their base R&D expenditures (calculated as the corporation's average qualifying R&D spending over the previous two years), and 20% of spending that is above that base amount. Taxpayers may qualify for the grant on up to \$4 million in annual R&D spending.

Background

Alberta first announced the IEG as part of its economic recovery plan on June 29, 2020. Alberta says that the IEG is specifically intended to offer relief to businesses that generate R&D spending in Alberta. For details, see *TaxNewsFlash-Canada* 2020-63, "[Alberta's New 20% R&D Grant — Coming Soon](#)".

Who qualifies?

To qualify for the IEG for a taxation year, a corporation must have a permanent establishment in Alberta at any time during the taxation year and carry on SR&ED activities in Alberta during the taxation year. However, a corporation that is exempt from tax in the year does generally not qualify for the IEG. Small and medium-sized corporations in all stages of operation and in all industries that meet these conditions may qualify for the IEG, regardless of whether they are profitable.

For corporations with between \$10 million and \$50 million in taxable capital in the immediately preceding taxation year (calculated on an associated basis), the IEG phases out incrementally, and is completely eliminated if taxable capital is \$50 million or more.

Eligible expenditures

Eligible expenditures that qualify for the federal Scientific Research and Experimental Development Tax Incentive Program will generally also be eligible for the IEG, as long as they are incurred in Alberta after December 31, 2020.

Eligible expenditures that qualify for the IEG are subject to an annual cap of \$4 million (prorated for short taxation years, and for taxation years that begin before January 1, 2021 and end after December 31, 2020). The annual cap must be shared among associated corporations.

Calculating and claiming the IEG

Corporations that qualify for the IEG can receive an 8% refundable tax credit on their R&D spending in a given year, up to the corporation's "base level" of spending (i.e., the company's average qualifying R&D spending over the previous two years). Corporations that have R&D spending that exceeds this base level could qualify for a 20% refundable tax credit on the excess amount. Where a corporation is a member of an associated group, the calculation of "base level" spending is generally computed as the associated group's average qualifying R&D spending over the previous two years. Taxpayers may qualify for the grant on up to \$4 million in annual R&D spending, subject to proration as applicable, and shared among associated corporations. Amounts received under this grant are delivered through the corporate tax system and are claimed on the corporation's Alberta corporate tax return.

Qualifying corporations must claim the grant on or before the day that is 15 months after the corporation's filing due date, by filing an Alberta corporate tax return along with Schedule AT29, "Alberta Innovation Employment Grant", reflecting the claim.

Example

Consider the following example. (Note this example is for illustrative purposes only and depends on a corporation's specific circumstances).

A qualifying company has eligible R&D expenditures of \$150,000 in 2019 and \$100,000 for 2020, wholly incurred in Alberta. As a result, the company's "base level" R&D expenditures for 2021 is \$125,000. The corporation is not associated with any other corporations and has taxable capital of less than \$10 million in its immediately preceding taxation year. The company's actual qualifying R&D spending in Alberta in 2021 is \$250,000.

This company may be eligible for an IEG for 2021 as follows:

8% refundable tax credit on base level expenditures of \$125,000:	\$10,000
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20% refundable tax credit on \$125,000 of eligible expenditures in excess of base level (i.e., \$250,000 - \$125,000):	\$25,000
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Total refundable IEG for 2021	\$35,000
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As a result, this company would be eligible for an overall 14% refundable IEG.

We can help

Your KPMG adviser can help you assess whether you may benefit from this new R&D tax incentive.

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