

Manitoba Interactive Digital Media Tax Credit (MIDMTC)



Program Guidelines

For questions or assistance regarding the MIDMTC program, please contact:

**Manitoba Jobs and the Economy
Science, Innovation and Business Development Division (SIBD)**



Avery Jodoin
Business Development Manager, Interactive Digital Media
avery.jodoin@gov.mb.ca / 204-945-0975

Laurie Cornell
Business Development Officer, Interactive Digital Media
laurie.cornell@gov.mb.ca / 204-945-3743

Guidelines last updated: January 18, 2016



TABLE OF CONTENTS



1) WHAT IS THE MANITOBA INTERACTIVE DIGITAL MEDIA TAX CREDIT (MIDMTC)? 3

2) WHAT PROJECTS ARE ELIGIBLE FOR SUPPORT UNDER THE MIDMTC PROGRAM? 3

 Is the applicant company eligible? 3

 Is the product being developed eligible? 4

 Are the project costs being incurred eligible? 5

 What qualifies as eligible labour costs? 6

 What qualifies as eligible marketing and distribution costs? 11

3) HOW DOES GOVERNMENT ASSISTANCE FOR A PROJECT AFFECT ITS MIDMTC CLAIM? 15

 Stacking rules..... 15

 Projects being developed for a government purchaser 16

4) HOW DOES A COMPANY ACCESS THE MIDMTC PROGRAM? 17

 1. Applying for a *project estimate sheet*:..... 17

 2. Making a claim for a MIDMTC *tax credit certificate*: 18

 3. Submitting a MIDMTC *tax credit certificate* to the Canada Revenue Agency (CRA): 18

 Amendment and revocation of MIDMTC *tax credit certificates*: 19

APPENDIX A: 20

 The Manitoba Interactive Digital Media Tax Credit (MIDMTC) Legislation

APPENDIX B: 25

 What does the "sale" requirement mean?

APPENDIX C:..... 26

 How is a "rich interactive media experience" defined under the MIDMTC program?

APPENDIX D: 27

 When is a product considered "primarily promotional" in nature?

APPENDIX E:..... 28

 The Skills Transfer Allowance (STA)

APPENDIX F: 29

 Marketing and distribution support in the case of co-productions

APPENDIX G: 30

 Examples of potential eligible marketing & distribution costs for a MIDMTC project

APPENDIX H: 31

 The MIDMTC 'grind formula'

APPENDIX I:..... 35

 Stacking rules

APPENDIX J: 37

 Projects being developed for a government purchaser

1) **WHAT IS THE MANITOBA INTERACTIVE DIGITAL MEDIA TAX CREDIT (MIDMTC)?**

The Manitoba Interactive Digital Media Tax Credit (MIDMTC) is a refundable corporate tax credit program. Qualifying companies can claim a 40% tax credit on eligible project costs they incur and pay to develop an eligible interactive digital media product in Manitoba.

The maximum tax credit on an eligible project is \$500,000 (i.e. a maximum of \$1,250,000 in eligible project costs can be claimed per project x the 40% MIDMTC rate). There is no limit on the number of eligible projects a qualifying company can have supported by the MIDMTC program.

The tax credit is claimed as part of a qualifying company’s annual income tax return (T2) and any refunds are processed through the notice of assessment issued by the Canada Revenue Agency (CRA).

The MIDMTC program is governed by legislation in subsections 10.5 (1) to 10.5 (14) of *The Income Tax Act (Manitoba)*: <http://web2.gov.mb.ca/laws/statutes/ccsm/i010e.php>. In the event of a discrepancy between the MIDMTC legislation, these guidelines and/or any other MIDMTC program materials, the legislation shall prevail. Interested applicants should review a copy of the MIDMTC legislation, which is provided as *Appendix A*.

The MIDMTC is also subject to the General Anti-Avoidance Rule (GAAR) articulated in Section 53.1 of *The Income Tax Act (Manitoba)*. For additional information on GAAR, companies should speak with an accountant.

These **guidelines** provide high-level information on the MIDMTC program, its eligibility criteria, and how the processes to apply into the program and claim a tax credit work. After reviewing these guidelines, companies should also review the **application & claim instructions** for more detailed information on the program’s application and claim processes.

- It is important to note that for an eligible project to receive MIDMTC support, a qualifying company must submit an application for the project before it begins. Additional information on this requirement is provided on page 17.

2) **WHAT PROJECTS ARE ELIGIBLE FOR SUPPORT UNDER THE MIDMTC PROGRAM?**

There are three main criteria that determine whether a project is eligible for support under the MIDMTC program:

- Is the applicant company eligible?
- Is the product being developed eligible?
- Are the project costs being incurred eligible?

Each of these three criteria is discussed in detail below:

Is the applicant company eligible?

In order for a company applying to the MIDMTC program (i.e. an “applicant company”) to be considered a “qualifying corporation” as defined by the MIDMTC legislation:

1. The applicant company must be incorporated in Canada (either federally or provincially);
2. The applicant company must not be exempt from paying income tax;
3. At least 25% of the total salaries and wages paid by the applicant company over the duration of a MIDMTC project must be paid to employees who are Manitoba residents over the duration of that project; and
4. The applicant company must have a “permanent establishment” in Manitoba, which generally means that:
 - It has a fixed place of business in Manitoba;
 - It carries on business through an employee or agent in Manitoba who has general authority to contract for the company; and
 - It uses substantial machinery or equipment in Manitoba.

For additional clarification on the Canada Revenue Agency’s (CRA’s) interpretation of permanent establishments, companies should speak with an accountant.

Is the product being developed eligible?

In order to qualify as an eligible “interactive digital media product” as defined by the MIDMTC legislation; there are certain things that a product must be, and certain things a product cannot be.

Please note that whenever the word “primarily” is used in this section on product eligibility, it is used according to the CRA definition meaning “more than 50%.”

To qualify as an eligible interactive digital media product under the MIDMTC:

1. The product must be developed primarily for sale:
 - To one or more purchasers who deal with the applicant company at arm’s length; or
 - To a purchaser who does not deal with the applicant company at arm’s length, for resale or licensing to one or more persons who deal with the purchaser and the applicant company at arm’s length.

It is important to understand how the MIDMTC administrators determine whether the “sale” requirement is met. Companies should refer to *Appendix B* for clarification.

2. The product must consist of a combination of digital software and data files, which is designed to present information through sound, images and/or text and provides users with a “rich interactive media experience.”

It is important to understand how the MIDMTC administrators define a “rich interactive media experience.” Companies should refer to *Appendix C* for clarification.

3. The product must be designed primarily to educate, inform or entertain the user.
4. The product cannot be designed to be used primarily for interpersonal communication.
5. The product cannot be designed to be used primarily for marketing or promoting an entity, product or idea (which includes products with a specific corporate/industrial and mainly promotional focus). This means that products which the MIDMTC administrators consider to be “primarily promotional” in nature will not qualify.

It is important to understand how the MIDMTC administrators determine whether a product will be considered “primarily promotional” in nature. Companies should refer to *Appendix D* for clarification.

6. The product cannot be operating system software. Enterprise software and some types of software platforms are also generally excluded.
7. In the case of a video game, the product cannot be classified by the Entertainment Software Rating Board (ESRB) Ratings Guide as “AO” (adults only). In the case of any other type of interactive digital media product, the product cannot be targeted to adults only or contain adult content.

The ESRB Ratings Guide is available at: http://www.esrb.org/ratings/ratings_guide.jsp

8. The product cannot contain hate propaganda, child pornography, or be deemed to be obscene under the *Criminal Code (Canada)*.
9. The product cannot—in the opinion of the Minister of Jobs and the Economy—be a product it would be contrary to public policy to support with public funds.

Some additional notes regarding eligible products:

Eligibility of new versions of products:

If a company developed a first version of an interactive digital media product (regardless of whether or not it made a MIDMTC claim for that project), the company could be eligible to apply or reapply to the MIDMTC program for the development of subsequent versions of that product. In order to qualify for MIDMTC support for new versions of a product, the following criteria must be met:

- The new version of the product must qualify as an eligible “interactive digital media product” as defined by the MIDMTC, and the company/project must meet all the other eligibility criteria of the program.

- The new version of the product must contain substantially (i.e. 80% or more) new, interactive content that was not in the previous version(s) of the product (e.g. new levels in a video game, new interactive functionality in an e-learning product, new interactive features in an app, etc.). If the company is developing a new version of the product for a different platform (e.g. creating a new Android version of an existing iOS app) the requirement for 80% new, interactive content still applies.
- The MIDMTC claim(s) for the new version of the product can only include eligible project costs incurred and paid in the development of the new content. No prior project costs that were incurred in the development of the previous version(s) of the product can be part of the claim(s).

Eligibility of convergent products:

Increasingly, interactive digital media products are being developed for a number of other industry verticals (e.g. driving simulators for the transportation industry, health care apps for the medical industry, video games for a film or TV project, etc.). These products can qualify for MIDMTC support provided they meet the eligibility criteria of the program, and companies would apply using the same forms and processes as for any other MIDMTC project.

In the case of a convergent interactive digital media product that is being developed in conjunction with a film or video project, it is possible for a company to apply for support under both the MIDMTC and the Manitoba Film and Video Production Tax Credit (MFVPTC). It is important to note, however, that only eligible project costs associated with the linear (i.e. film/video) component of the project may be claimed under the MFVPTC, and only eligible project costs associated with the interactive component of the project may be claimed under the MIDMTC. Each eligible project cost must only be claimed once (i.e. towards the MFVPTC or MIDMTC—no double counting), and the company must apply separately into each of the two programs in order to access support.

- If a company with a convergent project will be applying to both the MIDMTC and MFVPTC for support, it will have to identify that a MFVPTC claim is being made in its MIDMTC application. The MIDMTC **application & claim instructions** provide more information on this requirement.

Eligibility of products developed in Manitoba and other locations:

If an eligible interactive digital media product is developed partly in Manitoba and partly in other locations, the eligible part(s) of the project that are undertaken in Manitoba can potentially qualify for MIDMTC support.

- For example, if the majority of development of a new video game was undertaken in Manitoba, but some of the programming and quality assurance testing for the game was undertaken elsewhere, a company could apply for MIDMTC support for the eligible development work that was undertaken in our province. Both the applicant company and the video game being developed would need to meet the eligibility criteria of the MIDMTC, and the company would need to apply into the program before any work on the project began.

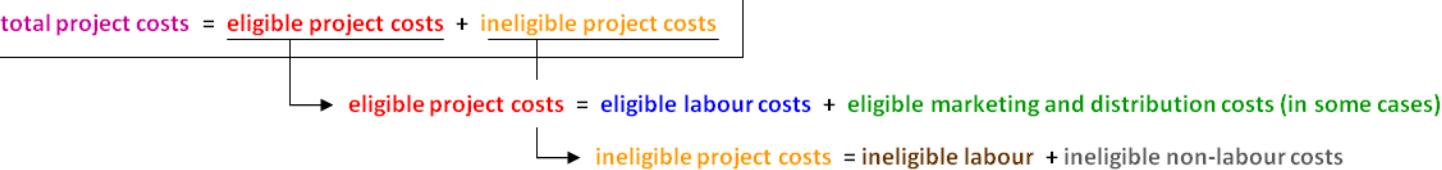
Note that when a product is developed partly in Manitoba and partly in other location(s), the type(s) of development work undertaken in Manitoba may play a role in determining whether the project can access MIDMTC support. Interested applicants should speak to the MIDMTC administrators for guidance. Contact information for the MIDMTC administrators is provided on the cover page of these guidelines.

Are the project costs being incurred eligible?

Under the MIDMTC program, an eligible company that is developing an eligible interactive digital media product can claim [eligible labour costs](#) and (in some cases) [eligible marketing and distribution costs](#) that it incurred and paid as part of the project.

Throughout these guidelines, you will notice a number of terms that sound similar, but are in fact very different (i.e. terms like: total project costs, eligible project costs, eligible labour costs, etc.).

The diagram below helps to explain how the various terms are different; and throughout the rest of this document, the terms appear in colour the same way they do in the diagram below. Be sure that as you are reading these guidelines (and especially the section below) you pay attention to the specific term being used. If you are unclear, refer back to this diagram or contact one of the MIDMTC administrators for assistance. Contact information for the MIDMTC administrators is provided on the cover page of these guidelines.



What qualifies as [eligible labour costs](#)?

Labour costs must meet a number of criteria in order to be considered “[eligible labour costs](#)” as defined by the MIDMTC legislation. The MIDMTC administrators will be responsible for determining whether specific labour costs incurred and paid by a company will be considered [eligible labour costs](#) that can be claimed for MIDMTC support. Decisions will be made by the MIDMTC administrators on a case-by-case basis, and they can request that a company submit any supporting documentation they deem necessary in order to make a determination regarding the labour costs that the company wishes to claim. Once a decision has been made by the MIDMTC administrators, it cannot be appealed by the company.

Specific labour costs that an applicant company incurs and pays must meet the following criteria in order to be considered [eligible labour costs](#) under the MIDMTC program:

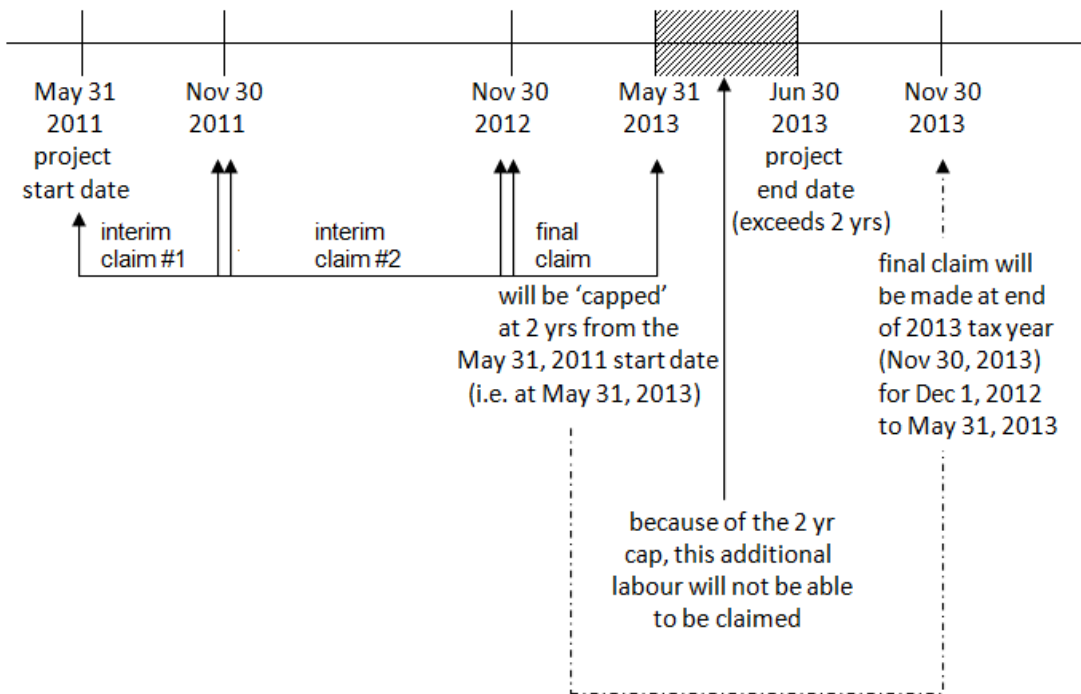
-
1. The labour costs must be directly attributable to development of the eligible interactive digital media product.
 - “Development” is interpreted by the MIDMTC administrators as the various stages of production undertaken to complete the first commercial version of the product (e.g. stages such as: product design, production and testing). This often means that development includes the stages up to—but not including—product launch.
 - For products that launch at a beta stage, with additional development then undertaken to complete the product based on the beta stage results, that additional development labour can potentially qualify as [eligible labour costs](#).
 - For products where the final stages of development overlap with the initial stages of launch, those final stages of development can potentially qualify as [eligible labour costs](#). For example, if an eligible interactive website launches with a series of interactive webisodes—which require additional real-time development work based on users’ input—then that final development work undertaken before the interactive website is fully commercialized can potentially qualify as [eligible labour costs](#).
 - However, for products that require ongoing optimization, versioning, debugging, troubleshooting, moderation, support, or development once the product has been completed or launched; none of that additional work will qualify as [eligible labour costs](#).
 - Where development work on a product will be considered to end (for the purposes of a MIDMTC claim) is determined by the MIDMTC administrators on a case-by-case basis. Companies who have questions about what will be considered part of “development” labour for a specific project they are undertaking should contact the MIDMTC program administrators for guidance.
 - Labour costs that are not directly attributable to development of the eligible product are considered [ineligible labour costs](#) and will not qualify for MIDMTC support. Examples of [ineligible labour costs](#) include:
 - Administrative, legal, accounting, bookkeeping, payroll, business development, or management labour—other than project management labour that is specific to managing the development (i.e. creation) of the eligible product.
 - Labour related to marketing, distribution and/or promotion (though for certain types of projects, this labour can be claimed as [eligible marketing and distribution costs](#)). More information on [eligible marketing and distribution costs](#) is provided on page 11).
 - Labour for optimization, versioning, debugging, troubleshooting, moderation, other development or support once the product has been completed or launched (as described above).
 - Labour to develop project proposals: for funding programs (including the MIDMTC), for interim financing, for RFPs/potential contract purchasers, etc.
 - Additionally, if a project will include the development of both interactive digital media software, as well as associated hardware/firmware (e.g. that the software runs on), only the labour for development of the interactive digital media software will be considered eligible under the MIDMTC program.
 - There are other funding programs that can potentially be accessed to help support the development of the hardware/firmware. Interested companies can contact the MIDMTC administrators for guidance. Contact information for the MIDMTC administrators is provided on the cover page of these guidelines.
 2. The labour costs must be reasonable in the circumstances and fall within industry standards.
 - The MIDMTC administrators will review labour costs incurred and paid by the applicant company to assess whether they appear reasonable (e.g. does the cost of the labour seem appropriate given the complexity/amount of the specific work to be done?).
-

- The MIDMTC administrators will also assess whether labour rates fall within acceptable industry standards. In making this assessment, the MIDMTC administrators may consult information regarding average interactive digital media salaries in Manitoba/Canada (such as data from the [2012 New Media Census](#) or [2012 Canadian Interactive Industry Profile](#)).
- Additionally, if the MIDMTC administrators determine that support for a certain *type* of labour is contrary to public policy to support with public funds, then the MIDMTC administrators can consider that labour cost to be unreasonable in the circumstances and ineligible to be claimed.

3. The labour costs must be incurred and paid within the project period, and the project period cannot exceed a two year timeframe.

- The project period is the time between the start date and end date of a MIDMTC project (called the “commencement date” and “completion date” in the MIDMTC legislation).
 - The start date (or commencement date) is the first day that the company incurs an **eligible labour cost** on the project. This will normally be when the company begins development work on the product.
 - The end date (or completion date) is the last day that the company incurs/pays an **eligible labour cost** on the project. This will normally be when the company finishes development work on the first commercial version of the product, and it is ready for launch.
 - It is important to highlight the fact that the project period (i.e. the project start date to end date) is calculated based on product development timelines (i.e. **eligible labour costs**). For projects that can claim **eligible marketing and distribution costs**, those costs are never used to determine the project start and end dates. **Eligible marketing and distribution costs** must fall within the project period (as defined by **eligible labour costs**) or within 12 months following the project end date.
- Since MIDMTC claims are made at the end of each corporate tax year; should a project period exceed two years, the MIDMTC administrators will ‘cap’ the company’s final claim for that project by counting forward two years from the project start date that was established in the company’s first interim claim for the project. As an example:

- A company with an eligible MIDMTC project incurred and paid **eligible labour costs** from May 31, 2011 to June 30, 2013 (exceeding the MIDMTC’s two year limit). The company’s corporate tax year-end is November 30th.
- Over the course of the project, the company would therefore have made:
 - Its **1st interim claim** at the end of its 2011 corporate tax year (covering **eligible labour costs** from the May 31, 2011 project start date to November 30, 2011)
 - Its **2nd interim claim** at the end of its 2012 corporate tax year (covering **eligible labour costs** from December 1, 2011 to November 30, 2012)
- The company would make its **final claim** for the project at the end of its 2013 corporate tax year. The MIDMTC administrators would apply the ‘cap’ by ensuring that the final claim only covered **eligible labour costs** from December 1, 2012 to the May 31, 2013 ‘two year cap’ date.



- Additionally, **eligible labour costs** must be both incurred **and** paid during the project period in order to qualify as part of a MIDMTC claim. As such:
 - any labour performed during the project period but paid either before the project start date or after the project end date (e.g. a deferral) is not eligible to be claimed; and
 - any labour performed before the project start date or after the project end date but paid during the project period is not eligible to be claimed

4. The labour must be performed by individuals who are Manitoba residents during the project period, with the exception of non-Manitoba residents who are pre-approved under the *Skills Transfer Allowance (STA)*.

- Under the MIDMTC program, development labour must be performed by a Manitoba resident in order to qualify as an **eligible labour cost** that can be claimed. This rule applies to employees of the applicant company, as well as all 3rd party contractors that the applicant company hires to perform development work on the project (regardless of whether they are individual 3rd party contractors or employees of a 3rd party company).
- a) For employees of the applicant company: The MIDMTC administrators will verify whether each individual employee filed his/her personal income tax as a Manitoban for the calendar year before, or the calendar year of, the MIDMTC claim being made.
 - For example, if an applicant company has a corporate tax year end of December 31st, and is claiming **eligible labour costs** its employees incurred and were paid over the company's 2014 corporate tax year (ending Dec. 31, 2014), then the MIDMTC administrators will verify that each of the employees filed his/her personal income tax for 2014 or 2013 as a Manitoban.

If the MIDMTC administrators cannot verify an employee's residency based on his/her personal income tax filing (e.g. if the individual did not yet file an income tax return with CRA), then the MIDMTC administrators *may* accept other documentation to prove an individual's Manitoba residency. In these cases, the individual would need to provide copies of at least two of the following documents for verification (each of which must show the individual's name and home address):

- A Manitoba driver's licence;
- A vehicle registration card;
- A recent utility bill;
- A residential lease;
- A bank statement or cleared/voided cheque; or
- A Manitoba Health Card.

Each employee will also be required to sign an **employee declaration form** to attest to his/her Manitoba residency and the work he/she performed on the project. More information about this form is provided in the MIDMTC **application & claim instructions**.

- b) For 3rd party contractors: In any case where an applicant company hires a 3rd party contractor to perform **eligible labour costs** on a project, the 3rd party contractor must be willing to sign a **3rd party declaration form**—to attest to the work that was performed, and that it was performed by a Manitoba resident (i.e. in the case of an individual 3rd party contractor, that he/she is a Manitoba resident; or in the case of a 3rd party company, that its employee(s) who worked on the project are Manitoba residents).
 - Given this requirement, if an applicant company is planning to hire 3rd party contractors to perform some of the **eligible labour costs** on a project, it should confirm in advance that the individual(s) who will be performing the labour in question will be Manitoba residents, and that the contractor/company will be willing to provide a signed **3rd party declaration form** to that effect. More information about this form is provided in the MIDMTC **application & claim instructions**.
- As noted above, there is the potential for an applicant company to claim **eligible labour costs** incurred by a non-Manitoba resident—but only if there were no Manitoba residents who were qualified, able and willing to perform that labour; and only if the non-Manitoba resident was approved under the *Skills Transfer Allowance (STA)* before the project began. Detailed information on the STA criteria and approval process is provided in *Appendix E*.
 - It is important to clarify that the MIDMTC program does not prevent companies from hiring non-Manitoba residents (or 3rd party companies based outside the province) to work on projects for which they will be making a MIDMTC claim. Any number of non-Manitoba residents can be working on a MIDMTC project—the applicant company simply won't be able to claim their labour unless those individuals were pre-approved under the STA.

5. The labour costs must be counted towards the company’s MIDMTC claim according to the following rates:

- A** 100% of eligible salaries/wages that the applicant company paid to its employees, for **eligible labour costs** those employees incurred on the project.
- B** 65% of eligible fees that the applicant company paid to 3rd party contractors, for **eligible labour costs** those 3rd party contractors incurred on the project.
- C** 100% of eligible salaries/wages—or 65% of eligible fees—that the applicant company paid to non-Manitoba residents who were approved under the Skills Transfer Allowance (STA), for **eligible labour costs** those individuals incurred while working in Manitoba on the project.

As noted above, each non-Manitoba resident must have been pre-approved under the STA and meet all the STA criteria outlined in *Appendix E*. Provided those requirements are met, if the non- resident was:

- Hired as an employee of the applicant company for the duration of his/her work in Manitoba on the project, then the ‘100% of eligible salary/wages’ rate for his/her **eligible labour costs** applies.
- Hired as a 3rd party contractor for the duration of his/her work in Manitoba on the project, then the ‘65% of eligible fees’ rate for his/her **eligible labour costs** applies.

Additionally, the total (\$) amount of **eligible labour costs** that the applicant company can claim for non-Manitoba residents who were pre-approved under the STA cannot exceed 20% of the total (\$) amount of **eligible labour costs** that the applicant company is claiming for employees and 3rd party contractors who are Manitoba residents—i.e.:

$$C \leq [(A + B) \times 20\%]$$

- As an example, if a company paid \$100,000 for **eligible labour costs** incurred by its employees (who are Manitoba residents), \$75,000 for **eligible labour costs** incurred by a 3rd party contractor it hired (who is a Manitoba resident), and \$70,000 for **eligible labour costs** incurred by a non-Manitoba resident who was pre-approved under the *Skills Transfer Allowance* and hired by the applicant company as a 3rd party contractor for the work she performed in Manitoba on the project; then those **eligible labour costs** would be counted towards the company’s MIDMTC claim for the project at the following rates:

$$\begin{aligned} \$100,000 \times 100\% &= \$100,000 \\ \$75,000 \times 65\% &= \$48,750 \\ \$70,000 \times 65\% &= \$45,500^* \end{aligned}$$

* Since the maximum amount of **eligible labour costs** that can be claimed for the non-Manitoba resident is \$29,750 (i.e. $[(\$100,000 + \$48,570) \times 20\%] = \$29,750$), the \$45,500 in **eligible labour costs** incurred by the non-Manitoba resident must be capped at \$29,750 in the company’s MIDMTC claim for the project:

$$\$100,000 + \$48,750 + \$29,750 = \$178,500 \text{ in total } \textbf{eligible labour costs} \text{ (x 40\% MIDMTC rate)}$$

It is important to understand how the MIDMTC differentiates employees from 3rd party contractors—particularly when two or more companies who do not deal with each other at arm’s length (e.g. a parent company and its subsidiary) each have MIDMTC projects that were active over all or a portion of a given tax year.

- An employee of the applicant company is generally someone that receives a paycheck from the applicant company, and will receive a T4 from the applicant company at the end of the year.
- A 3rd party contractor is generally an individual, company or partnership that invoices the applicant company for the work they perform on the project (i.e. does not receive a paycheck or T4 from the applicant company and is not on the company’s staff).
- If two or more companies who do not deal with each other at arm’s length (e.g. a parent company and its subsidiary) each have MIDMTC projects that were active over all or part of a given tax year—and each of those companies are claiming **eligible labour costs** incurred by a specific individual (e.g. an employee of the parent company that also performed work on the subsidiary’s project)—then only the company that paid that individual’s salary/wages can claim his/her labour at the 100% ‘employee’ rate. If the other non-arm’s length company did not pay that individual’s salary/wages, then it must claim his/her labour at the 65% ‘3rd party’ rate.
 - The only exception to this rule is if both non-arm’s length companies pay the individual a separate salary/wage for the work that he/she performs for each of their companies. In this case, the MIDMTC administrators will verify that the **eligible labour costs** each company is claiming for that individual at the 100% ‘employee’ rate do not exceed the total eligible salary/wages that that same company paid the individual over the corporate tax year.

-
6. The labour costs can only include eligible portions of employee salaries/wages and 3rd party contractor fees.
- When an applicant company is calculating its **eligible labour costs** for a project, it may only be able to count certain portions of the salaries/wages it paid its employees for their eligible development work on the product; and only certain portions of the total fees it paid to 3rd party contractors for their eligible development work on the product.
 - a) For employees: Once an employee's earnings/income amount is calculated for a given pay period (based on his/her hourly rate of pay), there are (\$) amounts that may be added or subtracted to arrive at the net amount of pay that the employee ultimately receives for that pay period. Some of those (\$) amounts *can* be included in the eligible salary/wage number that the applicant company uses when it calculates **eligible labour costs** the employee incurred on a given MIDMTC project for that pay period, but some of those (\$) amounts *cannot* be included.

The eligible portion of an employee's salary/wages consists of:

 - The employee's earnings/income, which must be based on his/her hourly rate of pay.
 - The Canada Pension Plan (CPP), Employment Insurance (EI) and income tax contributions that are payable by the employee—i.e. that are deductions on his/her paycheques. (Note that the portion of CPP and EI contributions that are payable by the company cannot be included in the eligible portion of the employee's salary/wages—see below).
 - Benefits which are taxable to the employee, including vacation pay and employer contributions to a RRSP.

The following cannot be included as eligible portions of an employee's salary/wages:

 - Salary, wages or fees determined by reference to profits or revenues.
 - Stock options, signing bonuses, or other employment incentives.
 - The portion of CPP and EI contributions that are payable by the company (i.e. the employer).
 - Benefits paid by the employer which are not taxable to the employee.
 - b) For 3rd party contractors: When a 3rd party contractor invoices the applicant company for eligible development work that it performed on a project, the invoice may include GST charges. Those GST charges *cannot* be included as an eligible portion of the 3rd party fees that the applicant company will be claiming as **eligible labour costs** for the project.
 - Obviously, the applicant company also *cannot* include any portion of the 3rd party fees (i.e. costs on the invoice) that were not related to eligible development work on the MIDMTC project.
-

7. The labour costs are subject to 'no double counting' rules, and MIDMTC support for **eligible labour costs** will be reduced by other amount(s) of government assistance that are used to support those costs.
- The MIDMTC's no 'double counting' rules mean that:
 - If a specific MIDMTC project qualifies for marketing & distribution support, then a claimable labour cost for that project will either qualify as development (i.e. an **eligible labour cost**) or marketing/distribution (i.e. an **eligible marketing and distribution cost**), but not both.
 - An **eligible labour cost** cannot be claimed towards more than one MIDMTC project.
 - If a labour cost is being claimed towards another Manitoba corporate tax credit, it cannot be claimed as an **eligible labour cost** for MIDMTC support. As an exception to this rule (in order to encourage the hiring of qualified students and recent graduates) a labour cost being claimed towards the Manitoba Co-op Education and Apprenticeship Tax Credits (which are now called the Paid Work Experience Tax Credits) can also be claimed as an **eligible labour cost** for MIDMTC support.
 - If a labour cost is being claimed towards a corporate tax credit in another Canadian province or territory, it cannot be claimed as an **eligible labour cost** for MIDMTC support.
 - Subject to certain rules, a company *can* claim an **eligible labour cost** for MIDMTC support and include that same cost in its claim for a federal SR&ED credit (provided the cost would be considered eligible under that program as well).

Please refer to page 15 for detailed information on how MIDMTC support is affected when other sources of government assistance are being accessed for a project (e.g. other grant programs, Manitoba tax credits, SR&ED, etc.).

What qualifies as eligible marketing and distribution costs?

As noted above, marketing and distribution support can only be accessed for certain types of MIDMTC projects:

- First, the applicant company must be undertaking an eligible MIDMTC project where it will be claiming all or substantially all (i.e. 80% or more) of the eligible labour costs being incurred to develop an eligible interactive digital media product. This means that a company cannot apply *only* for marketing and distribution support if it will not be accessing an acceptable level of development support for the project.
- Second, the applicant company cannot be undertaking a fee-for-service project where it is developing the product under the terms of an agreement with an arm's length purchaser (i.e. the "developed under contract" scenario that is outlined in *Appendix B*). This means that an eligible MIDMTC project will generally only qualify for marketing and distribution support if the applicant company is developing and commercializing its own product (i.e. the "developed independently" scenario in *Appendix B*), or if the applicant company is a wholly-owned subsidiary developing a product that its parent company will be commercializing (provided that the parent company will not be selling the product under contract or to non-arm's length purchaser(s)).
 - An eligible MIDMTC project *could* also qualify for marketing and distribution support if the product is being developed and commercialized under the terms of a co-production agreement between the applicant company and one or more arm's length partner(s), and the applicant company is deemed to have an acceptable ownership/revenue stake in the project. The decision as to whether or not a project of this type will qualify is made by the MIDMTC administrators on a case-by-case basis, and is explained in greater detail in *Appendix F*.

If a given project does qualify for marketing and distribution support, the MIDMTC administrators will be responsible for determining whether specific marketing and/or distributions costs incurred and paid by the company will be considered "eligible marketing and distribution costs" as defined by the MIDMTC legislation. Decisions will be made by the MIDMTC administrators on a case-by-case basis, and they can request that a company submit any supporting documentation or other proof they deem necessary in order to make a determination regarding the marketing or distribution costs that the company wishes to claim. Once a decision has been made by the MIDMTC administrators, it cannot be appealed by the company.

Specific marketing and distribution costs that an applicant company incurs and pays must meet the following criteria in order to be considered eligible marketing and distribution costs under the MIDMTC program:

1. The marketing and distribution costs must be directly attributable to advertising or promoting the eligible product, or distributing the eligible product to customers or potential customers.
 - In order to claim an eligible marketing and distribution cost for a MIDMTC project, the applicant company must be able to prove that the cost was incurred and paid to market, promote or distribute the specific product that was (or is being) developed under that MIDMTC project (i.e. the 'MIDMTC-eligible product'). If the cost is not *exclusive* to that specific product, but is still directly attributable to it in part, then the MIDMTC administrators may allow a proportional amount of the cost to be claimed. If, however, the cost is only attributable to the company or its products/services/capabilities in general—and isn't directly attributable to the MIDMTC-eligible product to any meaningful degree—then the MIDMTC administrators will not allow the cost to be claimed. For example:
 - A company is developing a video game, and the product has been deemed eligible for MIDMTC support. The company pays to design a banner ad to promote the video game. If the company can show that the ad design *only* promoted that specific video game (and not other products as well, or just the company in general), then the design costs could qualify as eligible marketing and distribution costs for the MIDMTC project.
 - A company is developing three new video games, and one of those products has been deemed eligible for MIDMTC support. The company pays a number of costs to attend a game development trade show. Unless the company can show that all of its time at the trade show was devoted *only* to promoting the MIDMTC-eligible product, the MIDMTC administrators will likely assess that the company attended the trade show to promote its various products under development (and perhaps even its company in general). The MIDMTC administrators will consider whether a definable amount of the company's time at the trade show can be reasonably attributed to promoting the MIDMTC-eligible product; and based on that assessment, the MIDMTC administrators *may* allow a proportional amount (i.e. percentage) of the trade show costs to qualify as eligible marketing and distribution costs for the company's MIDMTC project.
 - A company is developing a video game, and the product has been deemed eligible for MIDMTC support. The company pays to completely re-design its corporate website. Since the costs for the new website are not directly attributable to the MIDMTC-eligible product, even in part (i.e. they promote the company and its capabilities in general), those costs will not qualify for MIDMTC support.

It is important for companies to understand how they ‘prove’ that a specific marketing or distribution cost they wish to claim is directly attributable to a MIDMTC-eligible product (either in whole or in part). Companies should refer to the ***application & claim instructions*** for this information, and for full details on how to prepare a MIDMTC claim submission.

In all cases, however, it is the MIDMTC administrators who will review the proof that the company submits, in order to decide whether the specific marketing or distribution cost will ultimately be considered directly attributable to the MIDMTC-eligible product in whole or in part (and whether all, a portion, or none of the cost will be claimable as an **eligible marketing and distribution cost** as a result).

-
2. The marketing and distribution costs must be reasonable in the circumstances and fall within industry standards.
 - The MIDMTC administrators will review marketing and distribution costs incurred and paid by the applicant company to assess whether they appear reasonable; and will also assess whether rates for any marketing and/or distribution labour costs fall within acceptable industry standards. Generally, a specific marketing or distribution cost must also be over \$50 to be included in a MIDMTC claim.
 - Additionally, if the MIDMTC administrators determine that support for a certain *type* of marketing or distribution cost is contrary to public policy to support with public funds, then the MIDMTC administrators can consider that cost to be unreasonable in the circumstances and ineligible to be claimed.
-
3. The marketing and distribution costs must be incurred and paid by the applicant company within the project period or within 12 months after the project end date.
 - As noted on page 7 above, the project period (i.e. the project start date to end date) is calculated based on product development timelines (i.e. **eligible labour costs**) and cannot exceed a two year timeframe. **Eligible marketing and distribution costs** must fall within the project period or within 12 months after the project end date.
 - Additionally, **eligible marketing and distribution costs** must be both incurred **and** paid during the project period or within 12 months after the project end date in order to qualify as part of a MIDMTC claim. Any marketing and/or distribution costs incurred during that timeframe but paid either before or after it are not eligible to be claimed. Similarly, any marketing and/or distribution costs incurred before or after that timeframe but paid during it are not eligible to be claimed.
 - Finally, since the MIDMTC program was enhanced to include marketing and distribution eligibility in 2013, only qualifying MIDMTC projects with project start dates that fall after December 31, 2012 can claim **eligible marketing and distribution costs**.
-
4. The marketing and distribution costs can be labour or non-labour, and can be incurred in Manitoba or elsewhere, but they must have been paid by the applicant company.
 - In contrast to the criteria for **eligible labour costs**, marketing and distribution costs do not have to be labour—nor do they have to be incurred in Manitoba or by a Manitoban—in order to potentially qualify as **eligible marketing and distribution costs**. They must however, meet all of the criteria outlined in these guidelines and in the MIDMTC legislation in order to qualify.
 - Regardless of the type of marketing or distribution cost that is incurred, however, the cost must be paid by the applicant company in order for that company to claim it as an **eligible marketing and distribution cost** for MIDMTC support. A marketing or distribution cost paid by another individual, entity or group cannot be claimed as an **eligible marketing and distribution cost** by the applicant company.

Examples of different types of **eligible marketing and distribution costs** are provided in *Appendix G*—along with information on additional eligibility criteria that the MIDMTC program enforces for certain types of marketing and distribution costs in particular.

-
5. The marketing and distribution costs must not relate directly to processing an order by, or shipping an eligible product to, a consumer who purchased the eligible product directly from the company.

6. Marketing and distribution *labour* costs can only include eligible portions of employee salaries/wages or 3rd party contractor fees. *Non-labour* marketing and distribution costs can only include eligible portions of the payment the applicant company made for the goods/services.

- As is the case for eligible labour costs, when an applicant company is calculating its eligible marketing and distribution costs for a project, it may only be able to count certain portions of the salaries, wages or fees it paid for eligible marketing and/or distribution labour; and only certain portions of the costs it paid for eligible, non-labour marketing and/or distribution goods/services.

a) For marketing or distribution *labour* costs:

If the eligible marketing or distribution work was performed by an employee of the applicant company, the eligible portion of that employee's salary/wages (that the applicant company will use when it calculates the eligible marketing and distribution costs that the employee incurred on the project) is defined using the same criteria as the MIDMTC enforces for eligible labour costs—i.e.:

The eligible portion of an employee's salary/wages consists of:

- The employee's earnings/income, which must be based on his/her hourly rate of pay.
- The Canada Pension Plan (CPP), Employment Insurance (EI) and income tax contributions that are payable by the employee—i.e. that are deductions on his/her paycheques. (Note that the portion of CPP and EI contributions that are payable by the company cannot be included in the eligible portion of the employee's salary/wages—see below).
- Benefits which are taxable to the employee, including vacation pay and employer contributions to a RRSP.

The following cannot be included as eligible portions of an employee's salary/wages:

- Salary, wages or fees determined by reference to profits or revenues.
- Stock options, signing bonuses, or other employment incentives.
- The portion of CPP and EI contributions that are payable by the company (i.e. the employer).
- Benefits paid by the employer which are not taxable to the employee.

If the eligible marketing or distribution work was performed by a 3rd party contractor that the applicant company hired, the invoice that the 3rd party contractor/company submitted to the applicant company for payment may have included GST, HST or other sales tax(es). Those charges *cannot* be included as an eligible portion of the 3rd party fees the applicant company will be claiming as eligible marketing and distribution costs for the project.

- Obviously, the applicant company also *cannot* include any portion of the 3rd party fees (i.e. costs on the invoice) that were not related to eligible marketing or distribution work on the MIDMTC project.

b) For *non-labour* marketing and distribution costs:

If the payment for an eligible, non-labour marketing or distribution cost included GST, HST or other sales tax(es), those charges *cannot* be included as part of that eligible marketing and distribution cost for the project.

- Obviously, if a given payment included charges for both an eligible marketing and distribution cost and other, ineligible cost(s); the applicant company can *only* include the portion of the payment that was specific to the eligible marketing and distribution cost in its MIDMTC claim.

7. The marketing and distribution costs are counted towards the applicant company's MIDMTC claim at 100% of the eligible costs that were incurred and paid by the company—with the exception of marketing costs that are meals or entertainment (which are counted at 50%).

- This 100% count rate applies regardless of whether the eligible marketing and distribution costs are labour or non-labour; incurred in Manitoba or elsewhere; and (in the case of marketing/distribution labour), regardless of whether the work was performed by employees of the applicant company or 3rd party contractors; Manitoba residents or non-Manitoba residents.
- As noted above, the only exception to the 100% count rate is for eligible marketing and distribution costs for meals or entertainment, which are counted at 50%. Note that alcohol is not eligible to be claimed as part of meals or entertainment (or as part of any other eligible marketing or distribution cost).

- As an example: A company is developing a new mobile app, and the product has been deemed eligible for MIDMTC support. As part of its app development project, the company paid:
 - \$20,000 to hire a New York marketing firm to develop a marketing strategy for the app's launch;
 - \$5,000 to post banner ads that promoted the new app online;
 - \$2,000 to its employees, for work they performed to design the banner ads; and
 - \$200 in meal costs (excluding alcohol) for a dinner meeting in New York that was held to discuss a potential distribution deal for the product.

Those **eligible marketing and distribution costs** would be counted towards the company's MIDMTC claim for the project at the following rates:

$$\$20,000 \times 100\% = \$20,000$$

$$\$5,000 \times 100\% = \$5,000$$

$$\$2,000 \times 100\% = \$2,000$$

$$\$200 \times 50\% = \$100$$

= \$27,100 in total **eligible marketing & distribution costs** (x 40% MIDMTC rate)

8. The **eligible marketing and distribution costs** being claimed cannot exceed \$100,000.

- For any MIDMTC project that qualifies for marketing and distribution support, the applicant company may only claim the **eligible marketing and distribution costs** that it incurred and paid on the project (which is determined based on the criteria above). Should those **eligible marketing and distribution costs** exceed \$100,000; however, the amount of **eligible marketing and distribution costs** that the company can claim for the project will be capped at \$100,000. As such:
 - If a company pursuing an eligible MIDMTC project incurs and pays \$45,000 in **eligible marketing and distribution costs**, it will be able to claim \$45,000 (x 40% MIDMTC rate)
 - If a company pursuing an eligible MIDMTC project incurs and pays \$135,000 in **eligible marketing and distribution costs**, it will be able to claim \$100,000 (x 40% MIDMTC rate)

9. The marketing and distribution costs are subject to 'no double counting' rules, and MIDMTC support for **eligible marketing and distribution costs** will be reduced by other amount(s) of government assistance that are used to support those costs.

- The MIDMTC's no 'double counting' rules mean that:
 - If a specific MIDMTC project qualifies for marketing and distribution support, then a claimable labour cost for that project will either qualify as marketing/distribution (i.e. an **eligible marketing and distribution cost**) or development (i.e. an **eligible labour cost**), but not both.
 - An **eligible marketing and distribution cost** cannot be claimed towards more than one MIDMTC project (unless the MIDMTC administrators determine that proportional amounts of the overall cost can be claimed towards more than one of the applicant company's MIDMTC projects).
 - If a marketing or distribution cost is being claimed towards another Manitoba corporate tax credit, it cannot be claimed as an **eligible marketing and distribution cost** for MIDMTC support. As an exception to this rule (in order to encourage the hiring of qualified students and recent graduates) an eligible labour cost being claimed towards the Manitoba Co-op Education and Apprenticeship Tax Credits (which are now called the Paid Work Experience Tax Credits) can also be claimed as an **eligible marketing and distribution cost** for MIDMTC support.
 - If a marketing or distribution cost is being claimed towards a corporate tax credit in another Canadian province or territory, it cannot be claimed as an **eligible marketing and distribution cost** for MIDMTC support.

The next section of these guidelines provides detailed information on how MIDMTC support is affected when other sources of government assistance are being accessed for a project (e.g. other grant programs, Manitoba tax credits, etc.).

3) **HOW DOES GOVERNMENT ASSISTANCE FOR A PROJECT AFFECT ITS MIDMTC CLAIM?**

As noted above, MIDMTC support for **eligible labour costs** and (if applicable) **eligible marketing and distribution costs** is reduced by other amount(s) of ‘government assistance’ being used to support those costs.

This means that once the total **eligible project costs** for a MIDMTC project have been calculated, the (\$) amount(s) of any other source(s) of government assistance that the applicant company is accessing to support the project will ‘grind down’ the MIDMTC tax credit that the applicant company will be entitled to receive.

- If, however, a company is not accessing any other sources of government assistance for a project; then its MIDMTC tax credit for the project will not be affected by any grind.

There are a variety of different types of ‘government assistance’ that a company could be accessing to support a particular MIDMTC project. As articulated in the MIDMTC legislation:

"government assistance" means assistance that the corporation receives or is entitled to receive from a government, municipality or other public authority whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or any other form of assistance, other than

- (a) assistance—including an amount paid or payable to the corporation by The Canada Media Fund—that is recoupable or repaid; and*
- (b) the tax credit under this section or section 10.1 (co-op education and apprenticeship tax credit), received or receivable by the corporation.*

Different types of government assistance ‘grind down’ the MIDMTC tax credit for a project in different ways, but according to a set formula that the MIDMTC administrators will apply whenever a MIDMTC project is accessing one or more other source(s) of government support.

The MIDMTC ‘grind formula’ is explained in detail in *Appendix H*. For information on when/how an applicant company must identify other sources of government assistance it may be accessing for a project, companies should refer to the ***application & claim instructions***.

Stacking rules

In addition to the MIDMTC ‘grind formula’ that is applied when a project is accessing other source(s) of government assistance; the MIDMTC program also stipulates that no more than 100% of **total project costs** can be financed by government assistance (including the (\$) amount of MIDMTC tax credit(s) that the company receives for the project).

- It is important to note that many other government funding programs and tax credits also enforce ‘stacking caps’ for their programs (for example, the provincial Commercialization Support for Business (CSB) program stipulates that no more than 50% of **total project costs** can be financed through sources of government assistance).
- As a result, when a MIDMTC project is accessing one or more other sources of government support, the MIDMTC administrators will determine what stacking caps (if any) that each of those other programs enforces; in order to identify the lowest stacking cap that applies to the project (or if none of the other programs enforce stacking caps, then the 100% MIDMTC cap will apply).
- The MIDMTC administrators will then add up the (\$) amounts of MIDMTC tax credit(s) and other sources of government assistance that are being used to support the project—to ensure that the total (\$) amount of support does not exceed the maximum percentage of **total project costs** that the lowest stacking cap enforces. It is important that the lowest stacking cap be used in this calculation; as otherwise, MIDMTC support for the project might push it over the stacking rules of one of the other funding programs being accessed (and may create issues for the overall project financing).
- It is also important to note that although sources of repayable government assistance and support from the Canada Media Fund (CMF) will not ‘grind down’ the MIDMTC tax credit for a project, tax policy dictates that any (\$) amount(s) of repayable government assistance or CMF funding used to support a project must be included in the MIDMTC ‘stacking rules’ calculation.

Appendix I provides more information on the MIDMTC ‘stacking rules’, how repayable assistance and CMF funding are included in the calculation, and examples of how stacking caps are applied to MIDMTC projects.

Projects being developed for a government purchaser

When an applicant company is developing a product for sale or licence primarily to a government purchaser, it *may* limit the MIDMTC tax credit that the company can claim for that project. Whether or not the limit will apply depends on the type of government purchaser that the product is being developed for.

If a project is being developed primarily for sale or licence to a type of government purchaser that *will* limit the applicant company’s MIDMTC claim, then the limit is applied in the following ways:

- 1. First, the company must wait until the project is complete to make a MIDMTC claim for the project (this is explained in greater detail in the MIDMTC ***application & claim instructions***).
- 2. Second, the MIDMTC tax credit for the project will be ‘capped’ by the calculation outlined below:

amount of MIDMTC tax credit ≤ total project costs −

amount the government purchaser(s) paid for the product − amount of revenue the government purchaser(s) generated from subsequent sale or licence of the product

Appendix J provides a detailed list of the types of government purchasers that will and will not limit a company’s MIDMTC claim—as well as examples of how the calculation above is applied.

As a last point of clarification, the MIDMTC definition of ‘government assistance’ states that: “*government assistance means assistance that the corporation receives or is entitled to receive from a government, municipality or other public authority...*”

Given this definition:

- Government assistance for a MIDMTC project that an applicant company *receives directly* will ‘grind down’ MIDMTC support for that project (according to the grind formula explained in *Appendix H*).
- Government assistance that an applicant company *may receive indirectly*, or receives for activities/purposes that are not linked to a MIDMTC project, will normally not ‘grind down’ MIDMTC support for the project.
 - For example: A company is developing an interactive learning app that has been deemed eligible for MIDMTC support. The company is also receiving a government grant to train its accounting staff on a new payroll/HR system that the company is implementing. The training grant is not supporting any activities related to the MIDMTC project, nor are any of the accounting staff who will be receiving the training involved in any eligible work on the MIDMTC project. As a result, the grant funding the company is receiving will not grind down its MIDMTC claim for the eligible project.
 - As another example: A non-profit community organization receives an annual operating grant from government (as part of its overall public/private operational funding). The organization hires a company to develop an interactive digital media product for a specific project it is pursuing. If the company is eligible to receive MIDMTC support for that project, the money invested into the project by the community organization (i.e. their ‘payment’ of the fee-for-service contract they signed with the company) would not grind down the MIDMTC tax credit that the company could claim. This is because the grant was not provided to the non-profit for the purpose of supporting the project; and even if some of those funds may ultimately have been used to pay the applicant company to develop the product, that company was not *entitled to receive* those funds.
- If, however, the MIDMTC administrators determine that an applicant company was ***entitled to receive*** government assistance for a MIDMTC project—even if it received that assistance *indirectly*—then MIDMTC support for the project will be ‘ground down’ (again, according to the grind formula in *Appendix H*).
 - For example: A local company is participating in a consortium that successfully applies for a large government grant to support a multi-project initiative. Though another partner in the consortium is awarded the actual funding, the company *was* named as a project partner in the funding proposal that was submitted. If the other partner (i.e. the direct recipient of the grant) provides some of the funding to the company so that it may undertake one of the projects that was outlined in the proposal—and that project is eligible for MIDMTC support—then the funding that the partner provided would grind down the company’s MIDMTC tax credit for the project. This is because the grant was provided for the purpose of supporting the project (as part of the larger initiative the consortium is undertaking), and the company was entitled to receive that assistance by virtue of having been named as a project partner in the funding application.

4) **HOW DOES A COMPANY ACCESS THE MIDMTC PROGRAM?**

There are three main processes that an applicant company must undertake in order to apply for—and claim—a MIDMTC tax credit for an eligible project:

1. Applying for a ***project estimate sheet*** before the project begins;
2. Making a claim for a MIDMTC ***tax credit certificate*** at the end of each corporate tax year the eligible project is/was underway; and
3. Submitting the MIDMTC ***tax credit certificate*** it receives to the Canada Revenue Agency (CRA) as part of the company’s annual income tax return (T2), in order to claim the tax credit earned.

These guidelines provide high-level information on each of the three processes, but detailed information that applicants require for each of the application and claim stages of the MIDMTC program is provided in the MIDMTC ***application & claim instructions***. Applicants should refer to that document whenever they are making an application or claim for a MIDMTC project.

1. **Applying for a project estimate sheet:**

The first step in accessing MIDMTC support for a project is to apply for a ***project estimate sheet*** (which is called a “certificate of eligibility” in the MIDMTC legislation).

As noted above, this application must be submitted to the MIDMTC administrators before the project begins. It is recommended, however, that a company submit its application for a ***project estimate sheet*** at least three weeks before the project’s anticipated start date.

If a company is planning to apply to the MIDMTC program for the first time—or if after reading these guidelines and the ***application & claim instructions*** a company is unsure whether its specific project will qualify for support—it is recommended that the company contact the MIDMTC administrators before submitting an application for a ***project estimate sheet***. The MIDMTC administrators can provide guidance as to whether a planned project is likely to meet the eligibility criteria of the program or not, and whether or not the company should move forward in submitting an application as a result.

It is important to note that a successful application for a ***project estimate sheet*** does not *guarantee* that a company will qualify for MIDMTC support. This initial “approval” only signals that the MIDMTC administrators *anticipate* that the project being undertaken will qualify, and provides an estimate of the MIDMTC tax credit that the company *could* be eligible to receive (based the planned project budget that the company provides at this initial application stage).

The actual assessment of whether a project will qualify for MIDMTC support (and what (\$) amount of MIDMTC tax credit the company will be eligible to receive) is made by the MIDMTC administrators each time that a company submits a claim for a ***tax credit certificate*** for the eligible project. As a result:

- If a company successfully applies for a ***project estimate sheet***, but over the course of the project the applicant company, the product being developed, or some other aspect of the project changes in a way that renders that company or project ineligible for MIDMTC support, then the MIDMTC tax credit that the company is claiming for the project will not be approved (and any (\$) amount of MIDMTC tax credit(s) that may previously been provided for the project are recoverable from the company).
- Also, the (\$) amount of MIDMTC support that is provided for an eligible project is based on the ***actual eligible project costs*** that the company incurs/pays and claims for the project—not on the *estimates* that the company provided in its planned project budget at the initial application stage.
 - As such, if actual ***eligible project costs*** end up being higher than anticipated (i.e. the planned budget increased over the course of the project), then the company could end up receiving a larger MIDMTC tax credit for the project than was listed on its ***project estimate sheet***. Conversely, if actual ***eligible project costs*** end up being lower than anticipated, the company could end up receiving a smaller MIDMTC tax credit than was listed on its ***project estimate sheet***.

For detailed instructions on how to apply for a ***project estimate sheet***, companies should refer to the ***application & claim instructions***.

2. **Making a claim for a MIDMTC tax credit certificate:**

Each year, at its corporate tax year end, a company must prepare and submit claims for all of its MIDMTC projects:

1. That are currently underway (i.e. interim claims);
2. That were completed over the course of the tax year (i.e. final claims); and/or
3. That incurred **eligible marketing and distribution costs** after the final claim *and* within 12 months after the project’s end date (i.e. additional marketing and distribution claims).

A new, streamlined annual claim process has been introduced for the MIDMTC program. The new process is structured to enable companies with multiple MIDMTC projects that were active over all or a portion of a given tax year to submit a single, annual claim package for those projects. This streamlines key aspects of the claim submission process for companies, while facilitating components of the claim audits undertaken by the MIDMTC administrators (e.g. to ensure that companies are not ‘double counting’ any **eligible project costs** across multiple MIDMTC claims that they may be submitting for a given tax year).

- Though companies with multiple MIDMTC projects will now submit a single, annual claim package, it is important to note that the submission is still structured to identify the specific MIDMTC claims that the company is making for each, individual project. The project claims are still technically separate, will be assessed for eligibility independently, and separate MIDMTC **tax credit certificates** will still be issued to the company for each of the eligible projects included in its annual claim package.

Detailed instructions to assist companies in preparing their annual MIDMTC claims are provided in the ***application & claim instructions***. Companies should review that document carefully—especially information on the three claim formats that companies can choose to use when submitting supporting documentation that is required as part of their annual claim package. If a company is making its first annual MIDMTC claim, or has questions about the claim process or three MIDMTC claim formats, it is recommended that the company contact the MIDMTC administrators for guidance.

When MIDMTC claims are submitted, they are processed by the MIDMTC administrators on a first-come, first-served basis. Processing times may depend on the volume of claims and is dictated by the completeness of the claims submitted. Incomplete claims, or claim requiring corrections or clarification may have delayed processing times.

When a claim is complete, the MIDMTC administrators will seek to complete their audit (and issue a MIDMTC **tax credit certificate**, if the claim is approved) within a six week period.

3. **Submitting a MIDMTC tax credit certificate to the Canada Revenue Agency (CRA):**

Once a company has made its annual claim for the MIDMTC project(s) it had active over all or a portion of a given tax year, the MIDMTC administrators will audit the company’s claim package and MIDMTC **tax credit certificate(s)** will be issued for each eligible project that was included in the company’s annual claim. MIDMTC **tax credit certificates** contain the following information:

- The qualifying company’s name, address and business number;
- The name of the eligible project for which a MIDMTC tax credit is being issued;
- The (\$) amount of MIDMTC tax credit being issued, and the corporate tax year that the tax credit applies to; and
- The date by which the **tax credit certificate** must be filed with the Canada Revenue Agency (CRA) in order to claim the tax credit.

When MIDMTC **tax credit certificate(s)** are issued to a qualifying company, it must claim the total (\$) amount of MIDMTC tax credit(s) listed on the certificate(s) on line 614, [Schedule 5](#) of its T2 income tax return for the corporate tax year listed on the certificate(s). The certificate(s) must be filed with the company’s T2 income tax return or held by the company if the return is filed electronically.

The Canada Revenue Agency (CRA) will process the MIDMTC tax credit(s) as part of the company’s T2 income tax return and include the tax credit(s) in the company’s notice of assessment for the year.

As outlined in the MIDMTC legislation, a MIDMTC **tax credit certificate** must be filed with the CRA within 18 months of the last day of the corporate tax year that the tax credit applies to. For example, if a company has a corporate tax year end of December 31st, and receives a MIDMTC **tax credit certificate** for its 2013 tax year, then the **tax credit certificate** must be filed with the CRA prior to June 30, 2016 (i.e. the date that is 18 months after December 31, 2013) in order for the company to claim its tax credit.

Despite this 18-month ‘window’ to file a MIDMTC tax credit with the CRA, it is recommended that companies submit their annual claim packages to the MIDMTC administrators as soon as possible following the end of each corporate tax year:

- Since companies must file their annual T2 income tax returns within six months of their tax year-end, this approach helps ensure that companies will have received any MIDMTC **tax credit certificate(s)** earned for the year in time to claim those MIDMTC tax credit(s) when it files its T2 return for the year.
- Companies must apply to have the CRA reassess their T2 return for a given tax year if they wish to claim a MIDMTC tax credit after their T2 return for that year has already been filed.

Amendment and revocation of MIDMTC tax credit certificates:

A MIDMTC **tax credit certificate** may be amended to correct an error and, under certain circumstances, may be revoked. Subsection 10.5(10) of *The Income Tax Act (Manitoba)* allows for the revocation of a MIDMTC **tax credit certificate** or **project estimate sheet** (called a “certificate of eligibility” in the MIDMTC legislation) if any information provided by the company to obtain the certificate is false or misleading or fails to disclose a material fact.

A **project estimate sheet** may also be revoked if the project is not carried out as proposed and ceases to be an eligible project. It may also be revoked if the project is not completed within 36 months of its issuance.

An amended MIDMTC **tax credit certificate** or **project estimate sheet** replaces any certificate/estimate sheet previously issued to the company for the project in question. If a MIDMTC **tax credit certificate** or **project estimate sheet** is revoked, the revoked certificate/estimate sheet is deemed to never have been issued.

If the MIDMTC administrators determine that there has been an overpayment of the tax credit for a particular eligible project, the excess is recoverable from the company and is a debt due by the company to Her Majesty in right of Manitoba.

If, after reading these **guidelines** and the MIDMTC **application & claim instructions** you still have questions about the MIDMTC program and/or how to apply, please contact the MIDMTC administrators:

Manitoba Jobs and the Economy Science, Innovation and Business Development Division (SIBD)



Avery Jodoin
Business Development Manager, Interactive Digital Media
avery.jodoin@gov.mb.ca / 204-945-0975

Laurie Cornell
Business Development Officer, Interactive Digital Media
laurie.cornell@gov.mb.ca / 204-945-3743

APPENDIX A:

The Manitoba Interactive Digital Media Tax Credit (MIDMTC) Legislation

Excerpt from The Income Tax Act (Manitoba) – available at: <http://web2.gov.mb.ca/laws/statutes/ccsm/i010e.php>

Version below is current as of January 15, 2016 / in effect since January 1, 2016

Interactive digital media tax credit

10.5(1) Subject to subsections (2) to (2.3), a qualifying corporation is deemed to have paid on its balance-due day for a taxation year, on account of its tax payable under this Act for that year, such amount as is claimed by the corporation, but not exceeding the total of all amounts each of which is the lesser of

- (a) 40% of the corporation's eligible project costs in relation to an eligible project for the year; and
- (b) the amount by which \$500,000 exceeds the total of all amounts each of which is an amount claimed by the corporation as a tax credit under this subsection in relation to the eligible project for a previous taxation year.

Eligible project costs for the year

10.5(1.1) A corporation's eligible project costs in relation to an eligible project for a taxation year is the total of

- (a) the corporation's eligible labour costs in relation to the eligible project for the year; and
- (b) the lesser of
 - (i) the corporation's eligible marketing and distribution costs in relation to the eligible project for the year, and
 - (ii) the amount by which \$100,000 exceeds the total of all amounts each of which is the corporation's eligible marketing and distribution costs in relation to the eligible project for a previous taxation year in which an amount was claimed under subsection (1).

Eligible labour costs for the year

10.5(1.2) A corporation's eligible labour costs in relation to the eligible project for a taxation year is the amount, if any, by which

- (a) the total of the corporation's labour expenses in relation to the eligible project as at the end of the year; exceeds the aggregate of
- (b) the total of all government assistance in respect of the corporation's labour expenses in relation to the eligible project; and
- (c) the total of all amounts each of which is the amount of the corporation's eligible labour costs in relation to the eligible project for a previous taxation year in which an amount was claimed under subsection (1).

Eligible marketing and distribution costs for the year

10.5(1.3) A corporation's eligible marketing and distribution costs in relation to the eligible project for a taxation year is the amount, if any, by which the aggregate of

- (a) 50% of the total of the corporation's marketing and distribution expenses for meals or entertainment in relation to the eligible project as at the end of the year; and
- (b) the total of all other marketing and distribution expenses of the corporation in relation to the eligible project as at the end of the year; exceeds the aggregate of
- (c) the total of all government assistance in respect of the corporation's marketing and distribution expenses in relation to the eligible project; and
- (d) the total of all amounts each of which is the amount of the corporation's eligible marketing and distribution costs in relation to the eligible project for a previous taxation year in which an amount was claimed under subsection (1).

Transitional — eligible marketing and distribution costs

10.5(1.4) No amount may be claimed as eligible marketing and distribution costs in relation to a project with a commencement date before 2013.

Claim for credit

10.5(2) No amount may be claimed under subsection (1) in respect of an eligible project after the filing-due date for the taxation year following the taxation year in which the project was completed.

Proof of credit

10.5(2.1) A corporation is not entitled to a credit under this section for a taxation year unless the tax credit certificate for that credit is

- (a) filed with the corporation's return for that year; or
- (b) if the return is filed electronically, held by the corporation and filed with the Minister of National Revenue upon request.

Limitation for projects for government

[10.5\(2.2\)](#) Despite subsection (1), if the eligible project consists of an interactive digital media product being developed primarily for sale or licence to the government or an agency of the government, a Manitoba municipality or an agency of a Manitoba municipality, or a corporation controlled by the government or by such a municipality or agency,

- (a) the credit under that subsection may be claimed only after the project is completed; and
- (b) the amount of the credit under that subsection cannot exceed the amount, if any, by which
 - (i) the taxpayer's total cost of the project, exceeds
 - (ii) the taxpayer's proceeds from the sale or licence of the product.

Limitation on credit due to government contribution

[10.5\(2.3\)](#) Despite subsection (1), the total of a corporation's credits under that subsection in relation to an eligible project, including credits claimed in relation to the project for previous taxation years, must not exceed the amount by which

- (a) the corporation's total cost of the project; exceeds
- (b) the total of all assistance which the corporation receives or is entitled to receive from a government, municipality or other public authority in respect of the eligible project — other than a tax credit under this section — that is not repaid by the corporation before the day that is three years after the project's completion date.

"Qualifying corporation" defined

[10.5\(3\)](#) For the purpose of this section, a corporation is a qualifying corporation in relation to an eligible project if

- (a) throughout the project period, it is a taxable Canadian corporation with a permanent establishment in Manitoba; and
- (b) at least 25% of the salary and wages paid by the corporation to its employees for the project period was paid to employees who are Manitoba residents for the project period.

Other definitions

[10.5\(4\)](#) The following definitions apply in this section.

"commencement date", in relation to an eligible project of a corporation, means the date on which the corporation first incurs an expense to be included in the corporation's labour expenses for the project. (« date de début »)

"eligible product", in relation to an eligible project, means the interactive digital media product to be developed in the course of the eligible project. (« produit admissible »)

"eligible project" means a project of a corporation, certified by the minister to be an eligible project of the corporation, to develop an interactive digital media product primarily for sale to

- (a) one or more purchasers who deal with the corporation at arm's length; or
- (b) a purchaser who does not deal with the corporation at arm's length for resale or licensing by the purchaser to one or more other persons, most of whom deal at arm's length with the purchaser and the corporation. (« projet admissible »)

"government assistance" means assistance that the corporation receives or is entitled to receive from a government, municipality or other public authority whether as a grant, subsidy, forgivable loan, deduction from tax, investment allowance or any other form of assistance, other than

- (a) assistance — including an amount paid or payable to the corporation by The Canada Media Fund — that is recoupable or repaid; and
- (b) the tax credit under this section, section 7.3 (research and development tax credit) or section 10.1 (paid work experience tax credit), received or receivable by the corporation. (« aide gouvernementale »)

"interactive digital media product" means a product that

- (a) consists of a combination of software and data files, in digital format, that are designed to be operated together, interactively by the user, to present information using sound, text and images, or any two of them;
- (b) is designed primarily to educate, inform or entertain the user;
- (c) in the case of a video game, is classified by the Entertainment Software Rating Board as anything other than "AO" (adults only); and
- (d) is not
 - (i) operating system software,
 - (ii) a product to be used primarily for interpersonal communication,

- (iii) a product to be used primarily for marketing or promoting of an entity, a product or an idea,
- (iv) a product that contains hate propaganda or child pornography as defined in the *Criminal Code* (Canada) or is deemed to be obscene under that Act, or any other material the publication, sale or possession of which is an offence under that Act, or
- (v) a product that, in the opinion of the minister, it would be contrary to public policy to support with public funds. (« produit utilisant des médias numériques interactifs »)

"labour expense" of a corporation in relation to an eligible project means any of the following amounts, to the extent that the amount is reasonable in the circumstances, directly attributable to the project and incurred and paid before 2020 and within the project period:

- (a) an amount on account of salaries and wages paid by the corporation to its employees who are Manitoba residents for the project period;
- (b) 65% of the fee paid by the corporation to
 - (i) an individual who is a Manitoba resident for the project period and is not an employee of the corporation for services performed by the individual or by one or more employees of the individual who are Manitoba residents for the project period,
 - (ii) a taxable Canadian corporation with a permanent establishment in Manitoba for services performed on its behalf by one or more employees who are Manitoba residents for the project period, or
 - (iii) a partnership carrying on business in Canada for services performed on its behalf by one or more individuals who are employees or members of the partnership and are Manitoba residents for the project period;
- (c) 20% of an amount that would be included under clause (a) or (b) in respect of services performed in Manitoba for the project by an individual who is not a Manitoba resident for the project period if
 - (i) the individual were a Manitoba resident for the project period, and
 - (ii) no amount were included in respect of the benefits or allowances that are included (or would be included if the individual were an employee resident in Canada) in the income of the individual under section 6 of the federal Act. (« frais de main-d'œuvre »)

"Manitoba resident", in relation to a project period, means resident in Manitoba on any December 31 within the period or, if the period does not include that day, on December 31 of the year in which the period ends. (« résident du Manitoba »)

"marketing and distribution expense" of a corporation in relation to an eligible project means an expense that

- (a) is reasonable in the circumstances and directly attributable to advertising or promoting the eligible product or distributing the eligible product to customers or potential customers;
- (b) is incurred and paid by the corporation
 - (i) during the project period or within 12 months after the day on which the project period ends, and
 - (ii) after 2012 and before 2020;
- (c) does not relate directly to processing an order by, or shipping an eligible product to, a consumer who purchased the eligible product directly from the corporation;
- (d) does not relate to an eligible product that is developed
 - (i) under the terms of an agreement between the corporation and a purchaser that deals at arm's length with the corporation, and
 - (ii) for the purpose of sale or license by the purchaser to one or more persons any of whom deals at arm's length with the purchaser;
- (e) is not an amount referred to in clause (5)(a) or subclause (5)(b)(ii) or (iii); and
- (f) is not included in computing
 - (i) the corporation's eligible labour costs in relation to the eligible project,
 - (ii) the corporation's eligible project costs in relation to any other project, or
 - (iii) the eligible project costs of any other corporation. (« frais de commercialisation et de distribution »)

"minister" means the minister appointed by the Lieutenant Governor in Council to administer this section. (« ministre »)

"project period", in relation to an eligible project, means

- (a) in the case of a project for which no tax credit is claimed before the project is completed, the period that begins on its commencement date or the day that is 24 months before its completion date, whichever is later, and ends on its completion date; and
- (b) in the case of a project for which a tax credit is claimed before the project is completed, the period that begins on its commencement date or the day that is 24 months before its estimated completion date, whichever is later, and ends on the actual completion date or on the day that is 24 months after the first day of the project period, whichever is earlier. (« période de projet »)

Interpretation of "labour expense"

[10.5\(5\)](#) For the purpose of the definition "labour expense" in subsection (4),

- (a) no amount may be included in respect of the following:
 - (i) salary, wages or fees determined by reference to profits or revenues,
 - (ii) stock options, signing bonuses, or other employment incentives,
 - (iii) ancillary employment benefits that are not required by law to be provided,
 - (iv) any benefits or remuneration prescribed by regulation,
 - (v) an amount that is included in computing the corporation's eligible labour costs in relation to any other project or the eligible labour costs of any other corporation,
 - (vi) an amount that is included in computing a tax credit claimed under any other section of this Act other than section 10.1 (paid work experience tax credit), or under any Act of another province or territory of Canada; and
- (b) an amount is not considered to be directly attributable to an eligible project if it is paid for
 - (i) services related to distribution, marketing or promotion,
 - (ii) administrative, payroll or management services, other than management services consisting of managing the project, or
 - (iii) any other service prescribed by regulation.

Certificate of eligibility

[10.5\(6\)](#) Upon application by a corporation proposing to develop an interactive digital media product, the minister may issue to the corporation a document that

- (a) identifies the project and certifies it to be an eligible project;
- (b) sets out the corporation's proposed commencement date and estimated completion date for the project;
- (c) provides an estimate of the tax credit; and
- (d) includes any other information that the minister considers appropriate or necessary.

Application for certificate of eligibility

[10.5\(7\)](#) A corporation's application for a certificate of eligibility under subsection (6) must be made in a form approved by the minister and before the commencement date of the project, and must include the following:

- (a) the name, address and business number of the corporation;
- (b) a description of the interactive digital media product to be developed;
- (c) if the product is to be developed for sale to a purchaser for resale or licensing to others, the name and address of the purchaser and, if requested by the minister, a copy of the agreement between the corporation and the purchaser;
- (d) if clause (c) does not apply or the purchaser referred to in that clause has not been identified, a copy of the corporation's plan for marketing the product;
- (e) an estimate of the corporation's eligible labour costs and eligible marketing and distribution costs for the project;
- (f) the proposed commencement date and an estimated completion date for the project;
- (g) any other information requested by the minister.

Tax credit certificate

[10.5\(8\)](#) The minister, upon application by a qualifying corporation in accordance with subsection (9), and upon being satisfied that the corporation qualifies for a tax credit for an eligible project, must issue a tax credit certificate that sets out

- (a) the name, address and business number of the corporation and the identifier of the project;
- (b) the amount of the tax credit;
- (c) the taxation year to which the tax credit applies; and
- (d) any other information that the minister considers appropriate or necessary.

Application for tax credit certificate

[10.5\(9\)](#) A corporation's application for a tax credit certificate for an eligible project must be made in a form approved by the minister and must set out or include the following:

- (a) the name, address and business number of the corporation;
- (b) a copy of the certificate of eligibility for the project;
- (c) the commencement date of the project and the date of its completion or the estimated date of its completion, if it has not yet been completed;
- (d) a statement of the labour expenses and marketing and distribution expenses;

- (e) information the minister requires in order to verify or be satisfied
 - (i) that the corporation is a qualifying corporation in relation to the project,
 - (ii) that the project has been completed and satisfies all the requirements for an eligible project,
 - (iii) that the amounts claimed as labour expenses qualify as labour expenses, and
 - (iv) that the amounts claimed as marketing and distribution expenses qualify as marketing and distribution expenses;
- (f) any other information relating to the project or the corporation that the minister considers appropriate or necessary for the administration of the tax credit.

Revocation of certificate

[10.5\(10\)](#) The minister may revoke a certificate of eligibility or a tax credit certificate issued to a corporation for a project if any information provided by the corporation to obtain the certificate is false or misleading or fails to disclose a material fact. The minister may also revoke a certificate of eligibility for a project if

- (a) the project is not carried out as proposed and ceases to be an eligible project; or
- (b) the project is not completed within 36 months after the certificate was issued.

Effect of revocation

[10.5\(11\)](#) If a certificate is revoked under subsection (10), it is deemed never to have been issued.

Recovery of overpayment of tax credit

[10.5\(12\)](#) If the Minister of Finance for Manitoba determines that all or any part of an amount paid or applied under subsection (1) did not qualify as a tax credit of the person to whom it was paid or for whose benefit it was applied, that amount or part of the amount is recoverable from the person and is a debt due by the person to Her Majesty in right of Manitoba.

Regulations

[10.5\(13\)](#) The Lieutenant Governor in Council may make regulations

- (a) defining any term used in this section but not defined in this Act;
- (b) prescribing benefits or remuneration expenses to be excluded from the definitions "labour expenses" and "marketing and distribution expense" in subsection (4);
- (c) prescribing services the costs of which are not to be considered directly attributable to an eligible project;
- (d) respecting information to be provided by a person claiming a tax credit under this section;
- (e) respecting the maintenance of books and records, and the provision of information or access to information, for the purpose of verifying the validity of a claim for a tax credit under this section;
- (f) respecting any other matter that the Lieutenant Governor in Council considers necessary to carry out effectively the intent and purpose of this section.

Delegation

[10.5\(14\)](#) The minister may delegate any power, duty or function of the minister under this section to

- (a) an employee of the government; or
- (b) an officer of New Media Manitoba Inc.

APPENDIX B:

What does the “sale” requirement mean?

As outlined on page 4 above, in order to qualify for MIDMTC support, an interactive digital media product *must be developed primarily for sale*:

- *To one or more purchasers who deal with the applicant company at arm’s length; or*
- *To a purchaser who does not deal with the applicant company at arm’s length, for resale or licensing to one or more persons who deal with the purchaser and the applicant company at arm’s length.*

In the case of a product being developed for sale “to one or more purchasers who deal with the applicant company at arm’s length,” there are three potential scenarios:

1. The applicant company is developing its own product, and will be selling/commercializing it once the product is completed (to one or many potential buyers/users). This scenario is called “developed independently” (though the applicant company may be working with one or more channel partners to sell/distribute the product once it is developed).
2. The applicant company is developing a product for an arm’s length purchaser under the terms of a fee-for-service agreement. This scenario is called “developed under contract.”
3. The applicant company is developing a product under the terms of a co-production agreement with an arm’s length partner, and either the applicant company or the partner (or both companies) will be selling/commercializing the product once it is completed (to one or many potential buyers/users).

There are a number of potential scenarios for a product being developed for “a purchaser who does not deal with the applicant company at arm’s length.” In any of these scenarios, however, the non-arm’s length purchaser must be selling/commercializing the product to one or more arm’s length buyers/users. For example:

- If the applicant company is a wholly-owned subsidiary that is developing a product for its parent company, then the parent company must be selling/commercializing the product to one or many buyers/users who deal with both the parent and the subsidiary at arm’s length.
- If the applicant company is developing a product under the terms of a co-production agreement with a non-arm’s length partner, and the applicant company is not going to be selling/commercializing the product, then the non-arm’s length partner must be selling/commercializing it to one or many buyers/users who deal with both co-production partners at arm’s length.

Depending which ‘sale’ scenario applies to a project that is seeking MIDMTC support, the applicant company will either have to submit a commercialization plan, signed contract, or both, as part of its MIDMTC application/claim(s). These are required in order for the MIDMTC administrators to determine whether the manner in which the product is being commercialized will qualify as an eligible “sale” under the definition of the MIDMTC program (more information on this requirement is provided in the MIDMTC ***application & claim instructions***).

It is important to note that enhancements made to the MIDMTC program in 2013 added flexibility to the MIDMTC definition of an eligible “sale,” in order to take into account the innovative ways that interactive digital media products are often commercialized and monetized (e.g. “freemium” products). In all cases, however, the commercialization plan and/or contract submitted by the applicant company must show how the product will generate revenue once it is completed and launched. The product cannot generate revenue simply by enhancing the applicant company’s (or another entity’s) existing product or service offering—the product itself must be monetized in a way that the MIDMTC administrators consider acceptable.

- This means that products which are developed by an applicant company for its internal use, or simply to improve/enhance its product(s) or service offering(s) will not be considered eligible for support under the MIDMTC program. If, however, an applicant company is developing a product for an arm’s length purchaser under a fee-for-service agreement, then that purchase fulfills the MIDMTC sale requirement and the arm’s length purchaser does not have to commercialize the product (i.e. it can purchase the product for internal use or to improve/enhance its product(s) or service offering(s)).
- If an applicant company is developing a product with an arm’s length co-production partner, either the applicant company or the partner must be commercializing the product in a way that meets the MIDMTC sale requirement. If an applicant company is developing a product with a non-arm’s length parent or partner, either the applicant company or the parent/partner must be commercializing the product in a way that meets the MIDMTC sale requirement. For additional clarification on the interpretation of “arm’s length,” companies should speak with an accountant.

APPENDIX C:

How is a “rich interactive media experience” defined under the MIDMTC program?

As outlined on page 4 above, in order to qualify for MIDMTC support, an interactive digital media product *must* provide users with a “rich interactive media experience.”

The MIDMTC program defines a “rich interactive media experience” using many of the same criteria that have been adopted by the Canada Media Fund (CMF) and other provinces with interactive digital media tax credits—namely that:

- The product must provide a participatory experience between the user and the product, or the user and other users as enabled by the product.
- The product must have multimedia content that requires interaction from the user to complete an experience. Multiple paths are possible, based on the user’s specific input. This enables the user to become a participant—not simply a reader or spectator.
- Products that only allow the user to choose, access or arrange linear content (like video, audio, images or text)—but don’t enable any additional interactivity between the user and that content, or the user and other users as enabled by that content—will not qualify.

The assessment of whether a product provides users with a “rich interactive media experience” or not is made by the MIDMTC administrators on a case-by-case basis, by looking at characteristics such as: feedback, control and adaptation:

Feedback is the degree to which a product responds to a user’s specific input.

- For example: When a user completes a test in an interactive educational product, if the program generates an evaluation and/or suggests additional practice exercises that are tailored to the specific areas where that user had difficulty in the test, that would likely be considered to provide a more “rich interactive media experience” than if every user would see the same evaluation and/or practice exercises following the test, regardless of their specific input.

Control is the degree to which a user can choose the form and sequence in which information is presented; and/or influence how his/her experience unfolds as he/she uses the product.

- For example: In a video game, the user can control his or her actions in a way that influences how he/she advances through the game. This creates a gameplay experience that is somewhat personalized to each user based on his/her choices, decision making, actions/reactions and strategy.
- For example: An interactive educational product that presents content through matching games, memory games, drag-and-drop games, etc. provides the user with a higher level of control over his/her experience than simple true/false, multiple choice, or other point-and-click exercises—and would therefore be considered to provide a more “rich interactive media experience” to the user.

Adaptation is the degree to which the product can tailor the interactive experience/content that it presents to a user based on that user’s specific skill level, preferences, decision-making, actions/reactions or other input—creating a highly or slightly personalized product/experience for each user.

- For example: In a driving simulation game, if the simulator is able to assess particular areas of weakness for each individual “driver” (i.e. user), and modify the simulator experience that “driver” receives as a result (i.e. a driver with problems in slippery conditions would receive a ‘highway-driving’ simulation in rainy conditions, while a driver with tendencies to speed would receive a ‘city-driving’ simulation with lots of traffic and stoplights), then the product is providing a highly adapted experience to each individual user.

In addition to the points above, it is also important to note that:

- When the MIDMTC administrators assess whether a product provides users with a “rich interactive media experience” or not, they consider the interactivity of the product as a whole. As such, an eligible product may contain both interactive and linear components, as long as the MIDMTC administrators are satisfied that the overall user experience involves a sufficient degree of interactivity.
- A product does not need to show a sufficient level of interactivity in each of the three characteristics that the MIDMTC administrators assess (i.e. feedback, control and adaptation)—but rather a sufficient level of interactivity across the three characteristics. As such, a product that does not provide a significant level of feedback but does provide a significant level of control may still be considered to provide a “rich interactive media experience” overall.
- The MIDMTC administrators also consider the nature and complexity of the product in their assessment of whether or not it provides users with a “rich interactive media experience.” It stands to reason that a simple, small-scale product could have more basic/limited interactivity while still providing users with a “rich interactive media experience;” whereas a complex, large-scale product that has only basic or very limited interactivity may not be considered to provide users with a “rich interactive media experience.”

Companies who are unsure whether their product will meet the MIDMTC definition of a “rich interactive media experience” or not are encouraged to contact the MIDMTC program administrators for additional clarification and guidance. Contact information for the MIDMTC administrators is provided on the cover page of these guidelines.

APPENDIX D:

When is a product considered “primarily promotional” in nature?

As outlined on page 4 above, in order to qualify for MIDMTC support, an interactive digital media product *cannot* be “primarily promotional” in nature (i.e. designed primarily to market or promote an entity, product or idea).

The MIDMTC administrators are responsible for determining whether a product will be considered “primarily promotional” or not, and this assessment is made on a case-by-case basis. In each case, however, the MIDMTC administrators are considering a number of specific questions. Some of these questions are outlined below, in order to help applicant companies better understanding how the determination is made.

It is important to note that most often, no one question from the list below will decide whether a product is considered “primarily promotional” or not—the MIDMTC administrators’ decision will be based on an assessment of a number of criteria, including (but not limited to) the following:

Is the interactive product being used to market or sell products/services, or to enhance a sales experience?

- For example: An interactive app is being developed for a local landscaping company. The app is used by customers to design landscaping improvements for their yards and book those landscaping services with the company. The app would be considered “primarily promotional” in nature as it serves to promote/sell the landscaping company’s services.
- For example: A company is hired to develop an interactive, online ‘storefront’ for local independent retailers. The website would be considered “primarily promotional” in nature as it is used by the various retailers who join the site to sell their products.

Is the interactive product driving a connection to a company or entity to assist that company/entity in promoting itself?

- For example: A grocery store chain funds the development of an interactive recipe website. Though the website itself is not commercialized under the grocery chain’s ‘brand,’ the site is saturated with content aimed solely at promoting the grocery chain (for example, pop-up ads that appear to encourage users to shop at those grocery stores; a requirement that users insert an email address to access the site (which is used to send users promotional offers from the grocery chain); etc.). If the MIDMTC administrators are of the opinion that the website was developed primarily to drive a connection between users and the grocery chain—in order to help the grocery chain promote itself—then the website would likely be considered “primarily promotional” in nature.

If the interactive product contains branded content, to what degree is the user’s interactive experience with the product tied to that branded content?

- For example: A company is hired under a fee-for-service contract to develop a video game using the characters from a popular TV show. Provided that the video game isn’t saturated with content aimed solely at promoting the TV show (as per the example above), then the video game likely wouldn’t be considered “primarily promotional” in nature—given that the interactive aspects of the game (e.g. specific challenges in each level, riddles to solve, etc.) do not serve simply to promote the branded, TV show content. Conversely, if a company is hired to develop an interactive website for a professional sports team, the website would likely be considered “primarily promotional” in nature, given that the interactive features of the site (like player trivia games, game day contests, etc.) are geared directly at promoting the team brand.

Where/how will users be accessing the interactive product?

- For example: A company is developing an independent, interactive app that will enable users to design an electronic scrapbook using their favorite family photos. The app will run on mobile devices and be sold on the Apple App and Google Play stores. This app likely wouldn’t be considered “primarily promotional” in nature by the MIDMTC administrators. Conversely, if the company were hired by a scrapbooking supplies retailer to developing the app to run on kiosks in its stores, then that app might be considered “primarily promotional” in nature (if the MIDMTC administrators determine that the app is being developed primarily to sell products that are available at the scrapbooking stores).

As per the various examples above, it is important to note that a product can be “primarily promotional” (and thus, ineligible for MIDMTC support) regardless of who or what it is promoting. Even if an applicant company is developing a product that promotes another company/entity rather than itself, the applicant company will not be able to access MIDMTC support for that product.

Applicants who are unsure whether a product they will be developing will be considered “primarily promotional” in nature are encouraged to contact the MIDMTC administrators for additional clarification and guidance. Contact information for the MIDMTC administrators is provided on the cover page of these guidelines.

APPENDIX E:

The Skills Transfer Allowance (STA)

As outlined on page 8 above, if there are no Manitoba residents who are qualified, able and willing to perform a certain type of eligible labour that is required for a MIDMTC project—and the applicant company has identified a non-Manitoba resident who is qualified, able, and willing to come to Manitoba to undertake that project work—then the applicant company can apply for a *Skills Transfer Allowance (STA)* in order to claim the [eligible labour costs](#) that the non-resident incurs while working in Manitoba on the project. As a requirement of the STA, during his/her time in Manitoba, the approved non-resident will need to provide relevant training to a Manitoba resident who is also working on the project.

In order to apply for a *Skills Transfer Allowance (STA)*, an applicant company must follow the steps below:

Step 1: As part of its project planning (i.e. before the project begins), the applicant company will identify one or more specific work activities that it believes a non-Manitoba resident must be hired to perform (i.e. because the applicant company is not aware of any Manitobans who are qualified, able and willing to perform the work). The applicant company must also have identified a non-Manitoba resident who is qualified, able, and willing to come to Manitoba to perform the work.

- It is important to note that the specific type(s) of work that the applicant company has identified as requiring a non-Manitoba resident must be types(s) of work that are considered [eligible labour costs](#) under the MIDMTC program. If it is work that is considered [ineligible labour](#) under the MIDMTC, then the applicant company will not be able to apply for a *Skills Transfer Allowance* to claim that labour.

Step 2: Before the project begins, the company will apply for a ***project estimate sheet*** by filling in and submitting a MIDMTC ***application & claim form*** for the project. In the STA section of the ***application & claim form***, the company lists the type(s) of required, eligible project work that it believes no Manitoba resident is qualified, able and willing to perform.

Step 3: When the MIDMTC administrators begin their review of the company's ***application & claim form***, they will forward the list of work activities that the applicant company inserted into the STA section of the form to one or more local industry associations (i.e. New Media Manitoba (NMM), the ICT Association of Manitoba (ICTAM), or On Screen Manitoba (OSM), depending upon the type(s) of work activities that the applicant company listed).

- It is important to note that only the applicant company's name, contact information, and the list of specific work activities it identified will be provided to the industry association(s). They will not be provided any copy (in whole or in part) of the company's ***application & claim form*** for the project, or any other information about the company/project.

Step 4: The industry association(s) will help the applicant company determine whether there are local Manitoba professionals that could potentially perform the type(s) of work it had identified as requiring a non-Manitoba resident. The association(s) will work with the company to ensure they have an accurate understanding of what the company is looking for, and will then compile a list of Manitoba professionals that could potentially perform the type(s) of work required. The association(s) will assist the applicant company in reaching out to the individual(s) it identified, so that the company can determine whether any of those Manitoba residents are qualified, able and willing to perform the work or not.

Step 5: If any of the Manitoba professionals are found to be suitable matches for the company, then the company will be able to claim the [eligible labour costs](#) that those Manitoba professional(s) incur and are paid on the project, according to the normal process for claiming eligible labour under the MIDMTC. If none of the Manitoba professionals are suitable matches, the company will complete additional parts of the STA section of its MIDMTC ***application & claim form*** for the project and submit the revised form back to the MIDMTC administrators.

Step 6: The MIDMTC administrators will review the additional STA information provided by the company and if they are satisfied that: 1) none of the Manitoba professionals were qualified, able and willing to perform the required work; and 2) the training the company has indicated that the non-Manitoba resident will provide during his/her time in Manitoba is acceptable, then the MIDMTC administrators will approve the STA request and finalize their review of the company's application for a ***project estimate sheet***.

Step 7: Provided that the ***project estimate sheet*** was granted, each time that the company makes a MIDMTC claim for the project, the MIDMTC administrators will verify that any non-Manitoba residents for whom [eligible labour costs](#) are being claimed were approved under the STA process at the ***project estimate sheet*** stage (i.e. before the project began). The MIDMTC administrators will also require that the applicant company submit a ***Skills Transfer Allowance Declaration Form*** that has been filled in and signed by both the non-resident(s) and the local professional(s) they trained—in order to verify that the non-Manitoba resident(s) did indeed come to Manitoba for the duration of their eligible work on the project, and did indeed provide training to one or more Manitoba residents who were also working on the project.

APPENDIX F:

Marketing and distribution support in the case of co-productions

As outlined on page 11 above, if an applicant company is undertaking an eligible MIDMTC project under the terms of a co-production agreement with an arm's length partner, the project may or may not qualify for marketing and distribution support.

The decision as to whether or not the project will qualify is made by the MIDMTC administrators on a case-by-case basis, and is based on whether the applicant company is deemed to have an acceptable ownership/revenue stake in the project. Once a decision is made by the MIDMTC administrators, it cannot be appealed by the company.

To inform their decision, the MIDMTC administrators will review the contract or written agreement governing the co-production (which will have been submitted by the applicant company when it applied for a **project estimate sheet**) and assess:

- The degree to which the applicant company is investing into the development of the product (i.e. the amount of **total project costs** being financed by the applicant company);
- Whether or not the applicant company will own the product once it is developed (or will have some degree of ownership over the final product); and
- Whether or not the applicant company will receive a share of the revenues that will be generated by the product once it is commercialized (and if so, what (%) share of revenues the applicant company will receive).

Based on their assessment, if the MIDMTC administrators determine that the applicant company has an acceptable ownership/revenue stake in the project, then the MIDMTC administrators *may* allow the applicant company to access marketing and distribution support for the project. This support will not exceed the \$100,000 'cap' on **eligible marketing and distribution costs** that can be claimed per MIDMTC project, but the MIDMTC administrators may also impose a lower 'cap' amount, based on the applicant company's specific ownership/revenue stake:

- For example: An applicant company has an eligible MIDMTC project where it is developing and commercializing an eligible interactive digital media product under the terms of a co-production agreement with an arm's length partner. If under the terms of the co-production agreement, the applicant company will have full ownership of the final product and will receive 75% of the revenues generated by that product, then the MIDMTC administrators *could* decide to allow the applicant company to claim **eligible marketing and distribution costs** it incurs and pays on the project, up to a \$75,000 'cap' for the project (i.e. 75% of the MIDMTC program's \$100,000 'cap' on **eligible marketing and distribution costs** that can be claimed per project). The MIDMTC administrators would have decided to impose the \$75,000 cap for the project based on their assessment of the applicant company's specific ownership/revenue stake in the project.

It is important to note that if the applicant company does not have a true ownership/revenue stake in the project (e.g. if the applicant company will only be receiving royalties from the product; or a flat amount of revenue that the product generates, regardless of its potential level of success on the market), then the project will not qualify for marketing and distribution support. Similarly, if the product is being sold by one or more of the co-production partners to one or more purchasers under contract, the project will not qualify for marketing and distribution support.

Finally, if an applicant company is undertaking an eligible MIDMTC project under the terms of a co-production agreement with an arm's length partner, and the MIDMTC administrators decide that the project can claim **eligible marketing and distribution costs** (up to \$100,000 or a lower 'cap' amount the MIDMTC administrators impose for the project), then only the **eligible marketing and distribution costs** that were incurred *and* paid by the applicant company will be able to be claimed. No marketing and distribution costs that were incurred and/or paid by the co-production partner (or any entity other than the applicant company) will be considered **eligible marketing and distribution costs** that the applicant company can claim for MIDMTC support.

APPENDIX G:

Examples of potential *eligible marketing and distribution costs* for a MIDMTC project

This appendix provides a list of some potential types of *eligible marketing and distribution costs* for MIDMTC projects. The list is not exhaustive; and as noted on page 11 above, the MIDMTC administrators are responsible for deciding whether or not a specific marketing or distribution cost that an applicant company incurs and pays on a project will be considered an *eligible marketing and distribution cost* that can be claimed for MIDMTC support.

If a specific MIDMTC project does not qualify for marketing and distribution support, then any marketing and/or distribution costs that the company incurs during the project period would be considered *ineligible labour costs* or *ineligible non-labour costs* in its MIDMTC project budget (and obviously could not be claimed).

Similarly, if a MIDMTC project *does* qualify for marketing and distribution support, but a specific marketing or distribution cost for the project does not meet the MIDMTC criteria for *eligible marketing and distribution costs* (as described on pages 11 to 14 of these guidelines), then that cost would be considered an *ineligible labour cost* or *ineligible non-labour cost* for the project (and obviously could not be claimed).

Eligible marketing and distribution costs for a MIDMTC project could include **labour and/or non-labour costs** for:

- Marketing strategies that are specific to the eligible product, and/or work to market or promote the eligible product (e.g. by marketing managers/consultants/strategists, publicists, salespeople, etc.);
- Advertising the eligible product in print and/or electronic media (including design and preparation);
- Direct mail marketing and/or telemarketing (including design and preparation);
- Attending trade shows and/or other events or meetings to promote the eligible product;
- Media events, promotional events, news releases, and/or media kits (including design and preparation);
- Market research and/or focus group testing that is specific to the eligible product;
- Designing and producing branding and/or 'visual identity' (e.g. logos) for the eligible product;
- Product trailers, previews and/or demos;
- Merchandising and/or promotional products (e.g. t-shirts) that are specific to the eligible product (including design and preparation);
- Preparing the eligible product for display or demonstration;
- In-store promotions and/or product samples; and
- Distribution of the eligible product (e.g. web hosting and/or server expenses)—with the exception of costs related to processing an order by, or shipping an order to, a consumer who purchased the eligible product directly from the company.

The following should be noted with respect to the potential types of *eligible marketing and distribution costs* listed above:

- Sales work that relates to promoting/marketing the eligible product (e.g. to target clients) can be claimed as an *eligible marketing and distribution cost* for the project, but sales work that relates to 'closing' or processing an actual sale cannot be claimed.
- When attending trade shows and/or other events/meetings to promote the eligible project, companies can potentially claim the following types of costs (provided that the trade show/event/meeting is located outside of Winnipeg or the city/town in which the company is based):
 - primary travel to get to/from the event (e.g. airfare);
 - accommodations (for day(s) that *eligible marketing and distribution costs* are being incurred);
 - trade show/event/meeting fees or costs (e.g. conference registrations);
 - business meals and/or entertainment costs that are directly related to promoting the eligible product (e.g. hosting a dinner meeting to discuss a potential distribution deal for the product).

Costs for incidentals while at the trade show/event/meeting cannot generally be claimed (e.g. taxis or other ground transportation while at the event, parking charges, meals and snacks (that are not directly related to promoting the eligible product), gratuities, 'per diems' and/or other miscellaneous costs).

- The applicant company must actually pay for the marketing or distribution cost it wishes to claim. Any cost that the company 'covers' using points or credits cannot be claimed as an *eligible marketing and distribution cost*. For example, a company cannot cover the cost of a flight to a trade show using 'frequent flyer' points it has accumulated and then claim the cost of that flight as an *eligible marketing and distribution cost* for the project.
- A sponsorship cost can only be claimed as an *eligible marketing and distribution cost* if it 'buys' an opportunity to promote the eligible project (and not simply the company or its overall products/services in general).
- Alcohol is never eligible to be claimed as part of an *eligible marketing and distribution cost* for a project.
- Generally, an *eligible marketing and distribution cost* must be over \$50 to be included in a MIDMTC claim.

APPENDIX H:

The MIDMTC ‘grind formula’

As outlined on page 15 above, MIDMTC support for **eligible project costs** is reduced by any other source(s) of government assistance being used to support those costs. Different types of government assistance ‘grind down’ MIDMTC support for a project in different ways, but always according to the MIDMTC grind formula, which is explained in detail in this Appendix.

Each time that a company applies for a **project estimate sheet** or submits a claim for a MIDMTC **tax credit certificate** for an eligible project, it will have to provide information on:

- How the costs of the project are being financed; and
- Whether or not any of the costs included in its MIDMTC project budget/claim are being claimed towards another Manitoba corporate tax credit (or corporate tax credit in another Canadian province/territory (P/T)).

If the source(s) of financing that the company identifies include any government assistance (as defined by the MIDMTC legislation); or if any of the project costs are being claimed towards another Manitoba or P/T tax credit, then the MIDMTC grind formula will apply. Additionally, at a claim stage, if any of the project costs incurred in the claim period have not yet been paid (i.e. deferrals), the value of those deferrals must be listed as part of the project financing for the period and will be included in the grind calculation.

The MIDMTC grind formula moves chronologically through three steps:

1. Deferrals
2. Other tax credit claims
3. Support from grants / other funding programs

If one of the steps in the formula does not apply to a project at a certain application or claim stage (e.g. at a claim stage, if the applicant company did not receive any grants to support the **total project costs** it incurred over the corporate tax year being claimed), then that step of the grind formula is skipped.

Step 1: Deferrals:

Deferrals may grind a MIDMTC claim because of the requirement that **eligible labour costs** and **eligible marketing and distribution costs** must be both incurred **and** paid in order to qualify for MIDMTC support.

If at a certain claim stage, there are project costs that have been incurred—but not yet paid—by the applicant company, those costs should still be included as part of the **total project costs** for the claim period that the company will identify in its MIDMTC **application & claim form** for the project. The company will have to identify the (\$) amount of the costs that were deferred, however, and none of those costs can be claimed as **eligible labour costs** for the period (note that the MIDMTC **application & claim instructions** provide detailed information on how this process is undertaken).

Each time that deferrals are identified, the (\$) amount of those deferrals will be removed from the MIDMTC project (i.e. from **total project costs** and, if applicable, **eligible project costs**) until such time as they are paid by the applicant company. Eligible costs that are deferred in a given MIDMTC claim period (e.g. corporate tax year), but paid by the applicant company in a subsequent claim period (e.g. tax year), can be included in the company’s MIDMTC claim for that subsequent period—provided that:

- Payment of the eligible costs still occurred within the project period (or within 12 months of the project end date, in the case of **eligible marketing and distribution costs**); and
- Payment of the costs was not ultimately determined by reference to profits or revenues (as these types of costs are not considered eligible for MIDMTC support—see pages 10 and 13 above).

The example below shows how ‘Step 1’ of the MIDMTC grind formula is applied when a company has deferred payment of project costs it incurred in a given claim period:

- Over the first corporate tax year a company’s MIDMTC project was underway (i.e. its first interim claim period), the company incurred **total project costs** of \$280,000—of which \$220,000 were **eligible project costs** as defined by the MIDMTC program. Of the \$280,000 in **total project costs** for the period, the company had deferred \$10,000 of \$20,000 in costs incurred for 3D programming work performed by one of the company’s employees, and a full \$5,000 in accounting costs for work performed by a 3rd party contractor that the company had not yet paid. Step 1 of the MIDMTC grind formula is therefore applied as follows:

Step 1a): Total project costs over the claim period – total deferrals over the claim period

- $\$280,000 - (\$10,000 + \$5,000)$
 $\$265,000 = \text{new total project costs after Step 1 of the MIDMTC grind formula}$

Step 1b): Total eligible project costs over the claim period –

SUM of: (each cost over the claim period that was deferred, in whole or in part – amount of each cost that was deferred) x MIDMTC count rate for that type of cost--i.e. 100%, 65% or 0%)

- $\$220,000 - (((\$20,000 - \$10,000) \times 100\%) + ((\$5,000 - \$5,000) \times 0\%))$
 $\$210,000 = \text{new eligible project costs after Step 1 of the MIDMTC grind formula}$

*Notice that all deferrals reduce the value of **total project costs** for a given claim period, but only deferrals that would otherwise have been considered **eligible project costs** for the period reduce the value of total **eligible project costs** for the period (since any **ineligible costs** deferred would not have been claimable for MIDMTC support even if they would have been paid in the period).*

Step 2: Other tax credit claims:

As noted on pages 10 and 14 above, the MIDMTC legislation prohibits any cost that is being claimed towards another Manitoba tax credit—or a tax credit in another Canadian P/T—from being included in a MIDMTC project budget/claim (i.e. no ‘double counting’).

Once exception to this rule is for the Manitoba Co-op Education and Apprenticeship Tax Credits (now called the Manitoba Paid Work Experience Tax Credits). In order to encourage the hiring of qualified students and graduates in the province, a project cost being claimed to that tax credit program can also be included in a MIDMTC project budget; and, if it qualifies as an **eligible project cost**, can be claimed towards a MIDMTC tax credit without any grind.

Because a company will know if specific MIDMTC project costs are going to be claimed towards another Manitoba or P/T tax credit (like the Manitoba Film and Video Production Tax Credit (MFVPTC), for example), it is easiest for the company to simply omit those costs from its MIDMTC budget/claim(s) (i.e. not include any of those costs in its calculation of **total project costs** (and therefore, **eligible project costs**) at any of the application or claim stages of its MIDMTC project). If the company *does* choose to include any of those costs in its MIDMTC budget/claim(s), then it must identify the (\$) amount of those costs, and they will be subtracted from the **total project costs** and, if applicable, **eligible project costs** for the project—using the same calculation as is used for deferrals.

Using the same example as above, ‘Step 2’ of the MIDMTC grind formula is applied as follows:

- After Step 1 of the MIDMTC grind formula, a company has **total project costs** of \$265,000 and **eligible project costs** of \$210,000. In addition to deferrals, the company has identified that \$30,000 of \$60,000 in animation costs it paid to a 3rd party contractor will be included in a MFVPTC claim it is making (as the animation work is being used both in the interactive product and in an associated film project that the company is undertaking). Step 2 of the MIDMTC grind formula is therefore applied as follows:

Step 2a): Total project costs over the claim period (after Step 1 of the MIDMTC grind formula) – total value of project costs over the claim period that are being claimed to other Manitoba or P/T tax credit(s)

- $\$265,000 - \$30,000$
 $\$235,000 = \text{new total project costs after Steps 1\&2 of the MIDMTC grind formula}$

Step 2b): Total eligible project costs over the claim period (after Step 1 of the MIDMTC grind formula) – SUM of: (each cost over the claim period that is being claimed, in whole or in part, to another Manitoba or P/T tax credit – amount of each cost that is being claimed to the other credit) x MIDMTC count rate for that type of cost--i.e. 100%, 65% or 0%)

- $\$210,000 - ((\$60,000 - \$30,000) \times 65\%)$
 $\$190,500 = \text{new eligible project costs after Steps 1\&2 of the MIDMTC grind formula}$

*As was the case for deferrals, all costs being claimed to another Manitoba or P/T tax credit reduce the value of **total project costs** for a given claim period, but only those costs that would otherwise have been considered **eligible project costs** for the period reduce the value of total **eligible project costs** for the period.*

SR&ED and the Manitoba R&D Tax Credit:

As noted on page 10 above, it is possible for a company to claim both a MIDMTC Tax Credit and federal Scientific Research & Experimental Development (SR&ED) Tax Credit for a given project—provided that the costs being claimed under each program are eligible under each program, and provided that the company’s SR&ED claim is ‘ground down’ based on the MIDMTC support that was received for eligible costs it is including in its SR&ED claim.

If a company is making both a SR&ED claim and MIDMTC claim for a given project, it must first claim all its **eligible project costs** under the MIDMTC program—regardless of what it is claiming under SR&ED. Then, when the company submits its SR&ED claim (for the eligible costs it incurred under the criteria of that program), it will need to grind down that claim based on any eligible costs that were already claimed for MIDMTC support.

If the company is also claiming a Manitoba R&D Tax Credit for the project, none of the costs the company had included in its MIDMTC claim can be claimed again for Manitoba R&D Tax Credit support (as per Step 2 above).

Companies who are interested in accessing the MIDMTC, SR&ED and/or the Manitoba R&D Tax Credit for a given project should speak with an accountant.

Step 3: Support from grants / other funding programs

The MIDMTC program splits grants and other funding programs that a company may be accessing for a given project into two main categories:

- 1. Grants/funding programs that provide repayable support; and
- 2. Grants/funding programs that provide non-repayable support.

As per the MIDMTC legislation, repayable funding that a company receives to help support a project will not grind down MIDMTC support for that project.

- Tax policy dictates that the (\$) amount(s) of repayable assistance received for the project *must*, however, be included in the MIDMTC stacking cap calculations for the project (see more information about this requirement in Appendix I).

Non-repayable funding that a company receives to help support a project *will* grind down MIDMTC support for that project. The way the grind is applied depends on the type of non-repayable funding being received. Again, the MIDMTC program splits programs into two categories:

- 1. Grants/funding programs that provide very selective support to specific, pre-determined project costs (which the MIDMTC administrators refer to as “targeted grant funding”); and
- 2. Grants/funding programs that provide more general support to a project/company overall (which the MIDMTC administrators refer to as “general grant funding”).

How are “targeted grant funding” and “general grant funding” different?

As noted above, some grants/funding programs are quite selective (or “targeted”) in the support that they provide. Generally, they provide smaller amounts of funding for specific, pre-determined project costs that are often quite narrow in scope. Specific project costs that the program funding will support are usually identified at the discretion of the funder, not the applicant, and can be set in advance of the funding being approved.

- As a result, with these grants/programs, the applicant company will be able to clearly identify (and the MIDMTC administrators will be able to clearly verify) which specific costs in a MIDMTC project budget/claim are being supported (in whole or in part) by source(s) of “targeted grant funding.” The (\$) value of the targeted grant funding (e.g. that is received in a given claim period) will therefore be subtracted from **total project costs** and, if applicable, **eligible project costs**, using the same calculation as for deferrals and other tax credit claims (i.e. Steps 1 & 2 of the MIDMTC grind formula above).

Other grants/funding programs are more general in their support—aiming to help fund an overall project, or even company, rather than just a very targeted set or type of costs. It is important to note that these grants/programs will normally still identify types of costs that can and cannot be supported, but this eligibility criteria is broader in scope, and the underlying intent is to provide more general/flexible support to a qualifying project or company.

- In some cases of general grant funding, the applicant company will not be able to clearly identify (or the MIDMTC administrators will not be able to clearly verify) which specific costs in the MIDMTC project budget/claim are being supported by the funding. Or, in cases where the specific project costs could be identified, they would likely apply to a wider range of project costs or to costs that the company had the discretion to select (based on broad, overall criteria for eligible/ineligible costs that the program set out for applicants).

As a result, the MIDMTC grind calculation for general grant funding will not follow the same format as the grind calculation for deferrals, other tax credit claims and targeted grant funding. Instead, it reduces the company’s MIDMTC claim for an eligible project by prorating the amount of general grant funding that went to **eligible project costs** vs. **ineligible project costs** (according to the calculation below).

Generally, very few grants/funding programs will be considered “targeted grant funding” for the purposes of the MIDMTC grind formula. The vast majority of grants and other, non-repayable funding programs that a company is likely to be accessing for a MIDMTC project fall into the “general grant funding” category.

It is also important to note that the decision as to whether support a company is accessing will be considered targeted grant funding, general grant funding, or repayable grant funding (for the purposes of the MIDMTC program) is made by the MIDMTC administrators, not the applicant company. Additionally, companies receiving general grant funding for a project cannot choose to direct it to set of specific project costs in an attempt to have the MIDMTC administrators consider it as ‘targeted grant funding’ for the project.

Using the same example as above, ‘Step 3’ of the MIDMTC grind formula is applied as follows. Note that if a company is accessing *both* targeted grant funding and general grant funding for a project (e.g. in a given claim period), the grind for targeted grant funding is always calculated before the grind for general grant funding:

- After Steps 1 & 2 of the MIDMTC grind formula, a company has **total project costs** of \$235,000 and **eligible project costs** of \$190,500. In addition to deferrals and its MFVPTC claim, the company has identified that over the tax year (i.e. the current claim period), it received \$40,000 in CSB stream 1 funding to help support the development of the product; and \$10,000 in CSB stream 3 funding, to cover 50% of approved costs it paid to attend a trade show to promote the product. Since the MIDMTC administrators consider CSB stream 1 to be general grant funding, and CSB stream 3 to be targeted grant funding, Step 3 of the MIDMTC grind formula is applied as follows:

Step 3a): Targeted grant funding calculation:

Total project costs over the claim period (after Steps 1&2 of the MIDMTC grind formula) – total value of targeted grant funding received over the claim period

- $\$235,000 - \$10,000$
 $\$225,000 = \text{new total project costs after Steps 1, 2 \& 3a of the MIDMTC grind formula}$

Total eligible project costs over the claim period (after Steps 1&2 of the MIDMTC grind formula) – SUM of: (each cost over the claim period that was supported, in whole or in part, by targeted grant funding – amount of each cost that was supported by targeted grant funding) x MIDMTC count rate for that type of cost--i.e. 100%, 65% or 0%)

- $\$190,500 - ((\$20,000 - \$10,000) \times 100\%)$
 $\$180,500 = \text{new eligible project costs after Steps 1, 2 \& 3a of the MIDMTC grind formula}$

THEN:

Step 3b): General grant funding calculation:

- 1) **Total eligible project costs** after Steps 1, 2 & 3a of the MIDMTC grind formula ÷ **total project costs** after Steps 1, 2 & 3a of the MIDMTC grind formula
 = % of **total project costs** that are **eligible project costs**
 - 2) Total value of general grant funding received over the claim period x % of **total project costs** that are **eligible project costs**
 = Value of general grant funding over the claim period that supported **eligible project costs**
 - 3) **Total eligible project costs** after Steps 1, 2 & 3a of the MIDMTC grind formula – general grant funding over the claim period that supported **eligible project costs**
 = **new eligible project costs** after the full MIDMTC grind formula has been applied
- $\$180,500 \div \$225,000 = 0.8022$
 $\$40,000 \times 0.8022 = \$32,089$
 $\$180,500 - \$32,089 =$
 $\$148,411 = \text{eligible project costs after the full MIDMTC grind formula has been applied}$

*Note that general grant funding will only reduce **eligible project costs**—it will not reduce **total project costs** the way deferrals, other tax credit claims and targeted grant funding do. As such, the last value of **total project costs** that is calculated as the MIDMTC administrators move through the applicable steps of the MIDMTC grind formula for a given project will be used as the **total project costs** for that project ‘after the full MIDMTC grind.’*

- For the example above: $\$225,000 = \text{total project costs after the full MIDMTC grind formula has been applied}$

APPENDIX I:
Stacking rules

As outlined on page 15 above, in addition to the MIDMTC ‘grind formula’ that is applied when a project is accessing other source(s) of government assistance; the MIDMTC program also stipulates that no more than 100% of **total project costs** can be financed by government assistance (including the (\$) amount of MIDMTC tax credit(s) that the company receives for the project).

Many other government funding programs and tax credits also enforce ‘stacking caps.’ For example, the Commercialization Support for Business (CSB) program stipulates that no more than 50% of **total project costs** can be financed through sources of government assistance. As a result, when a MIDMTC project is accessing one or more other sources of government support, the MIDMTC administrators will determine what stacking caps (if any) that each of those other programs enforces; in order to identify the lowest stacking cap that applies to the project (or if none of the other programs enforce stacking caps, then the 100% MIDMTC cap will apply).

The MIDMTC administrators will then add up the (\$) amounts of MIDMTC tax credit(s) and other sources of government assistance that have been provided to support the project—to ensure that the total (\$) amount of support does not exceed the maximum percentage of **total project costs** that the lowest stacking cap enforces. It is important that the lowest stacking cap be used in this calculation; as otherwise, MIDMTC support for the project might push it over the stacking rules of one of the other funding programs being accessed (and may create issues for the overall project financing).

There are two important notes regarding how “targeted grant funding” and “repayable grant funding” are handled for the purposes of the MIDMTC stacking cap calculation:

- First, though the MIDMTC grind formula removes any targeted grant funding from a company’s MIDMTC claim (i.e. reducing **total project costs** and (if applicable) **eligible project costs** by the amount of targeted grant funding received in a given claim period; that targeted grant funding must be accounted for when the MIDMTC stacking rules for the project are applied. As such, the MIDMTC stacking cap calculation uses the (\$) value of **total project costs** that was calculated after the full MIDMTC grind formula, plus the (\$) value of targeted grant funding (if any) that had been removed as part of that grind calculation. If the targeted grant funding program has a stacking cap, it will be included when the lowest applicable stacking cap for the project is identified.
- Second, though repayable grant funding is not included in the MIDMTC grind formula (as noted above), tax policy dictates that it must be included in the stacking cap calculation. All or a portion of the MIDMTC tax credit a company earned for an eligible project may be withheld if the sum of repayable grant funding + government assistance + MIDMTC tax credit(s) for the project exceeds the lowest stacking cap enforced among those funding programs.
 - If, however, all or a portion of the repayable grant funding that was accessed by the company is repaid within three years of the MIDMTC project end date, the company can apply to have the MIDMTC administrators redo the stacking rules calculation for the project. Should the repaid funding bring the total of: [repayable assistance not yet repaid (if any) + other government assistance used to support the project + MIDMTC tax credit(s) issued for the project] back under the lowest applicable stacking cap for the project, all or a portion of the MIDMTC tax credit that was withheld due to stacking limits may be issued to the company at that point.

An example of how the MIDMTC stacking rules are applied to projects is provided below:

- After the full MIDMTC grind formula (as outlined in *Appendix H above*), a company has **total project costs** of \$225,000 and **eligible project costs** of \$148,411. In addition to all the sources of government assistance that were outlined in the grind formula, the company also received \$10,000 from the Western Innovation Initiative (WINN) and \$10,000 from the Canada Media Fund (CMF) – Experimental Stream. Since both of these programs are considered “repayable grant funding” under the MIDMTC program, the MIDMTC ‘stacking rules’ calculation for the project is applied as follows:

- 1) Based on **eligible project costs**, prior to the stacking rules calculation, the company is eligible to receive a MIDMTC tax credit of \$59,364 (i.e. \$148,411 x 40%).
- 2) The total amount of government assistance (including MIDMTC credit) + repayable grant funding supporting the project currently is:

\$50,000	CSB	50% stacking cap
\$10,000	WINN	50% stacking cap
\$10,000	CMF	100% (no stacking cap)
\$59,364	MIDMTC	100% stacking cap
<hr/>		
\$129,364	= Total amount of government assistance (including MIDMTC credit) + repayable grant funding	

- 3) The lowest stacking cap that applies to the project is 50%. As a result, the maximum amount of **total project costs** that can be financed through government assistance + MIDMTC + repayable grant funding =
 - **(Total project costs** after the full MIDMTC grind formula has been applied + total (\$) value of targeted grant funding (if any) that was removed during the MIDMTC grind formula) x lowest stacking cap that applies to the project

$$= (\$225,000 + \$10,000) \times 50\%$$

$$= \$117,500$$
 - Since the stacking cap is being exceeded (i.e. since $\$129,364 > \$117,500$), the MIDMTC administrators would reduce the MIDMTC tax credit for the project to \$47,500. This would ensure that the total amount of government assistance (including MIDMTC credit) + repayable grant funding would not exceed \$117,500.
 - If, within three years of the MIDMTC project's end date, however, the company repaid both the \$10,000 in WINN and \$10,000 in CMF funding it had received for the project, then the company could apply to have the MIDMTC administrators redo the stacking rules calculation. With the WINN and CMF funding removed, total government assistance (including MIDMTC) for the project would total \$97,500; the lowest applicable stacking cap would remain 50%; and the maximum amount of **total project costs** that could be financed through government assistance would remain \$117,500 (i.e. $(\$225,000 + \$10,000) \times 50\%$). Since the stacking cap for the project would no longer be exceeded (i.e. since $\$97,500 < \$117,500$), the MIDMTC administrators would issue the company the \$11,864 in earned MIDMTC tax credit for the project that had previously been withheld (i.e. $\$59,364 - \$47,500$).

Given how stacking rules can affect a MIDMTC claim, when a company is considering which sources of government assistance it might use to help finance a project, the company may wish to consider criteria like:

- the types of project costs that each program can support;
- the relative level of funding that each program could potentially provide the project; and
- the level of stacking cap (if any) that each program would impose on the project overall.

Based on those criteria, it may make sense for the company to access certain funding programs for a specific project as opposed to others. This consideration becomes even more relevant for companies who are looking to access multiple sources of government assistance for a given project.

- If, at a certain claim stage, a company submits eligible project costs that were supported by another funding program—and that funding program enforces a stacking cap which is lower than the MIDMTC's 100% cap—the company cannot 'remove' those project costs at a later claim stage, in order to lift the stacking cap that the funding which supported those costs has now imposed on the project overall (even if that cap is now potentially limiting the company's current/future MIDMTC claim(s) for the project).

Also note that the MIDMTC administrators (not applicant companies) are responsible for applying the stacking rules calculation to MIDMTC projects. The MIDMTC administrators can provide companies with information on the specific stacking caps that other funding programs enforce, and this information is normally included in the program guidelines for those other funding programs as well. Contact information for the MIDMTC administrators is provided on the cover page of these guidelines.

APPENDIX J:
Projects being developed for a government purchaser

As outlined on page 16 above, if an applicant company is developing a product for sale or licence primarily to a government purchaser, it may limit the MIDMTC tax credit that the company can claim for that project. Whether or not the limit will apply depends on the type of government purchaser that the product is being developed for.

*The following types of government purchasers **will** limit the MIDMTC claim for an eligible project:*

- The Government of Manitoba or an agency of the Government of Manitoba;
- A corporation controlled by the Government of Manitoba or by an agency of the Government of Manitoba (e.g. a crown corporation);
- A Manitoba municipality or agency of a Manitoba municipality; and
- A corporation controlled by a Manitoba municipality or by an agency of a Manitoba municipality.

*The following types of government purchasers **will not** limit the MIDMTC claim for an eligible project:*

- The federal government or an agency of the federal government;
- A corporation controlled by the federal government or by an agency of the federal government;
- Another Canadian provincial government or an agency of another Canadian provincial government;
- A corporation controlled by another Canadian provincial government or by an agency of another Canadian provincial government;
- A non-Manitoba municipality or agency of a non-Manitoba municipality;
- A corporation controlled by a non-Manitoba municipality or by an agency of a non-Manitoba municipality;
- A non-Canadian government or an agency of a non-Canadian government; and
- A corporation controlled by a non-Canadian government or by an agency of a non-Canadian government.

When the type of government purchaser will limit a project’s MIDMTC claim, that cap is calculated as follows:

amount of MIDMTC tax credit

≤

total project costs

—

amount the government purchaser(s) paid for the product

—

amount of revenue the government purchaser(s) generated from subsequent sale or licence of the product

Example #1:	<div>Total project costs = \$100,000 and eligible project costs = \$80,000</div> <div>Government of Manitoba paid \$100,000 for the product; and</div> <div>Government of Manitoba did not subsequently sell/licence the product:</div> <div>Amount of MIDMTC tax credit must be ≤ [\$100,000 – (\$100,000 - \$0)]</div> <div>Amount of MIDMTC tax credit must be ≤ \$0</div> <div>= No MIDMTC tax credit can be claimed</div>
Example #2:	<div>Total project costs = \$150,000 and eligible project costs = \$80,000</div> <div>Government of Manitoba paid \$100,000 for the product; and</div> <div>Government of Manitoba did not subsequently sell/licence the product</div> <div>Amount of MIDMTC tax credit must be ≤ [\$150,000 – (\$100,000 - \$0)]</div> <div>Amount of MIDMTC tax credit must be ≤ \$50,000</div> <div>Amount of MIDMTC tax credit = eligible project costs x 40% = (\$80,000 x 40%)</div> <div>Amount of MIDMTC tax credit = \$32,000</div> <div>Since \$32,000 ≤ \$50,000 = company can claim the full \$32,000 MIDMTC tax credit earned</div>
Example #3:	<div>Total project costs = \$100,000 and eligible project costs = \$80,000</div> <div>Government of Manitoba paid \$100,000 for the product; and</div> <div>Government of Manitoba subsequently licensed the product for \$25,000</div> <div>Amount of MIDMTC tax credit must be ≤ [\$100,000 – (\$100,000 - \$25,000)]</div> <div>Amount of MIDMTC tax credit must be ≤ \$25,000</div> <div>Amount of MIDMTC tax credit = eligible project costs x 40% = (\$80,000 x 40%)</div> <div>Amount of MIDMTC tax credit = \$32,000</div> <div>Since \$32,000 is not ≤ \$25,000 = company can only claim a \$25,000 MIDMTC tax credit</div>