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Ontario Boosts Interactive Digital Media Tax Credit


- > 2009 Ontario Budget Delivers a Substantial Increase
- > Maximum Benefit Rate Increased to 40%
- > Good News for Game Developers, Electronic Publishers and Makers of PDA Software

Ontario's 2009 provincial budget delivered to the Legislature on March 26th, 2009, by Finance Minister Dwight Duncan included a massive increase in the Interactive Digital Media Tax Credit (OIDMTC).

OIDMTC has been available in various forms since 1998, with several improvements since then. Originally it was primarily utilized by game developers and makers of electronic gaming kiosks; e.g. VLT's, casino gaming machines etc. However, more recently it is increasingly used by companies involved in developing rich-media applications for cell phones and PDA's including Blackberries and iPhones.

OIDMTC pays a cash-refund benefit for expenditures incurred by an Ontario company (but not a partnership or an individual) in the creation and marketing of an interactive digital media product the primary purpose of which is to educate, inform, or entertain. The product must achieve that purpose by presenting information using at least two of the following: (i) text, (ii) sound or (iii) images. The multimedia information content must be delivered electronically embedded in a product; e.g. a kiosk, cell phone or PDA; published on a CD ROM, or transmitted via Internet technologies such as HTML, JAVA etc.

In general, OIDMTC covers payments to persons who are engaged in creating multi-media content; i.e. artists; versus those creating the foundation technology; i.e. engineers, technicians; who would more likely be eligible for SR&ED. Such persons would likely be using software tools



such as: Adobe Dimension, Adobe After Effects, Discreet Kinetix 3D Studio Max, Macromedia Flash / Dreamweaver, Sonic Foundry, Adobe Photoshop, Incite Video Editor etc.

Under existing rules, the OIDMTC benefit for companies that develop and sell their own products is calculated at 25% of eligible expenditures for all corporations and 30%, for certain qualifying small corporations. For companies that develop products for sale by others, the benefit is calculated at a rate of 25%.

In either case, to qualify for OIDMTC, the product must be developed all or substantially all; 90% or greater; in Ontario.

Existing rules define eligible expenditures as 100% of T4 wages paid to employees, 50% of amounts paid to arm's length subcontractors and up to \$100,000 of certain marketing costs paid out in periods not greater than 24 months before and 12 months after the release of the product. Ontario Budget 2009 proposes several significant changes to the OIDMTC rules that greatly enhance the benefit rate and make more expenditure eligible.

First off, the benefit rate is to increase to 40% for all corporations that develop and sell their own products, regardless of size. For companies that develop products for others, the rate increases from 25% to 35%.

Second, 100% of amounts paid to arm's length subcontractors that are attributable to wages paid by that subcontractor, will be eligible, as compared to the current 50%.

Finally, game developers that expend at least \$1M on the purchase of eligible fee-for-service labour on a subcontracted basis from an Ontario company in a three year period, are to be exempt from the requirements to:

- A) Develop all or substantially all of the product in Ontario OR
- B) Deal with only "arm's length" subcontractors, meaning that the game developer can form a subsidiary company in Ontario that it controls to do the work.

For more information on this topic, contact:

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About Scitax...

Scitax Advisory Partners is a professional services firm with specialist expertise in Scientific Research and Experimental Development (SR&ED) tax credits.

We offer a team of senior technical consultants all of whom have ten or more years experience in the SR&ED field. All Scitax technical consultants have engineering or science backgrounds and at least twenty years industry experience in their particular field prior to consulting.

Our primary function is to produce a technical submission package that most effectively communicates your SR&ED claim to CRA in a way that highlights eligibility and expedites processing. We assist you in identifying and preparing all required documentation including project technical descriptions, cost schedules, and everything else your tax preparer needs to file the claim. Once your claim is filed, Scitax will advocate for you with CRA and help you negotiate fair settlement of your claim.

While we normally work with our client's existing tax advisors, our affiliated firm Cadesky and Associates can provide a full package of tax services if required.



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