1986

c 3 Small Business Development Corporations Amendment Act, 1986 (No. 1)

Ontario
CHAPTER 3

An Act to amend the
Small Business Development Corporations Act

Assented to January 13th, 1986

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

1.—(1) Clause 1 (1) (b) of the Small Business Development Corporations Act, being chapter 475 of the Revised Statutes of Ontario, 1980, is amended by striking out "Business Corporations Act" in the second and third lines and inserting in lieu thereof "Business Corporations Act, 1982".

(2) Clause 1 (1) (f) of the said Act is repealed and the following substituted therefor:

(f) "equity share" means a share of any class or series of shares of a corporation carrying a voting right either under all circumstances or under circumstances that have occurred and are continuing, other than a share of a class or series that must vote separately by reason of a statutory requirement.

(3) Clause 1 (1) (m) of the said Act is amended by inserting after "class" in the first line "or series".

(4) Subsection 1 (1) of the said Act, as amended by the Statutes of Ontario, 1984, chapter 30, section 1, is further amended by adding thereto the following clauses:

(ha) "Northern and Eastern small business development corporation" means a small business development corporation that may make investments only in small businesses that are primarily located within the geographic boundaries of northern and eastern Ontario as defined in the regulations;
(q) "stated capital" and "stated capital account" have the same meaning as "stated capital" and "stated capital account" in the Business Corporations Act, 1982.

2.—(1) Subsection 3 (1) of the said Act is amended by striking out "Business Corporations Act" in the first and second lines and inserting in lieu thereof "Business Corporations Act, 1982 or any predecessor Act".

(2) Paragraph 2 of subsection 3 (2) of the said Act is amended by striking out "head office" in the first line and inserting in lieu thereof "registered office".

(3) Paragraphs 3 and 4 of subsection 3 (2) of the said Act are repealed and the following substituted therefor:

3. The classes and series of shares, the maximum number of shares that the corporation is authorized to issue of each class and series and the aggregate consideration exceeding which all shares of each class and series may not be issued.

4. The amount of the stated capital account of each class and series of shares issued and the amount of equity capital for which the shares were issued.

(4) Subsection 3 (3) of the said Act is amended by adding at the end thereof "and a true copy of any shareholder agreement relating to the corporation".

(5) Subsection 3 (4) of the said Act is amended by striking out "executed under the seal of the corporation and" in the first and second lines.

3. Clause 4 (c) of the said Act, as re-enacted by the Statutes of Ontario, 1981, chapter 35, section 2, and clauses 4 (d) and (e) of the said Act are repealed and the following substituted therefor:

(c) the articles of the corporation limit the aggregate consideration which the corporation may receive on the issuance of classes and series of equity shares to not more than,

(i) $10,000,000 in the case of a corporation that is offering its equity shares to the public, and

(ii) $5,000,000 in the case of any other corporation;
(d) the articles of the corporation restrict the business of the corporation to assisting in the development of small businesses by,

(i) providing capital through the acquisition and holding of securities as permitted by this Act,

(ii) providing business and managerial expertise to small businesses, or

(iii) in the case of a Northern and Eastern small business development corporation, by providing the assistance described in subclauses (i) and (ii) to small businesses which meet the requirements of clause 9 (1) (a);

(da) in the case of a Northern and Eastern small business development corporation, the corporation has included in its name "(Northern and Eastern)" or provides an undertaking satisfactory to the Minister at the time of registration to file articles of amendment changing its name to include that designation and to provide the Minister with a certified copy of the articles of amendment;

(e) the total stated capital for classes and series of equity shares issued in consideration for equity capital is at least $25,000; and

4. Section 5 of the said Act, as amended by the Statutes of Ontario, 1984, chapter 30, section 2, is further amended by adding thereto the following subsections:

(4) Upon the request of a corporation registered under this Act, the Minister may accept the surrender of the registration of the corporation if,

(a) the corporation pays to the Minister the amount, if any, required to be paid under section 24; and

(b) the corporation files with the Minister the prescribed information and meets such other conditions as may be prescribed.
(5) Where a small business development corporation that was registered prior to the 24th day of October, 1985 has,

(a) made investments only in small businesses primarily located within the geographic boundaries of northern and eastern Ontario as defined in the regulations;

(b) met the requirements of clause 4 (da); and

(c) complied fully with the Act, the spirit and intent of the Act and the regulations,

the Minister may, at the corporation’s request, deem the corporation to be registered as a Northern and Eastern small business development corporation and amend the register accordingly.

5.—(1) Subsection 7 (1) of the said Act, as re-enacted by the Statutes of Ontario, 1984, chapter 30, section 3, is repealed and the following substituted therefor:

(1) By the end of its first year of registration under this Act and at all times thereafter, a small business development corporation shall have equity shares issued and outstanding for equity capital of,

(a) at least $50,000 where the small business development corporation is a Northern and Eastern small business development corporation; or

(b) at least $100,000 where the small business development corporation is not a Northern and Eastern small business development corporation,

but not exceeding $10,000,000 where the small business development corporation is offering its equity shares to the public and $5,000,000 in the case of any other small business development corporation.

(2) Subsection 7 (4) of the said Act, as re-enacted by the Statutes of Ontario, 1984, chapter 30, section 3, is repealed and the following substituted therefor:

(4) Where a grant or tax credit with respect to any equity share has been paid or allowed out of an incentive fund referred to in clause 22a (1) (a) or (b), each eligible investment referred to in subsections (2) and (3) shall have been made after the 15th day of May, 1984, and shall meet the prescribed conditions of being an eligible investment,
(a) where the small business development corporation
is a Northern and Eastern small business development corporation, in a small business primarily
located in northern and eastern Ontario where the
grant or tax credit was paid or allowed out of the
northern and eastern Ontario incentive fund; and

(b) where the small business development corporation
is not a Northern and Eastern small business development corporation,

(i) in a small business primarily located in northern
and eastern Ontario where the grant or tax credit was paid or allowed out of the
northern and eastern Ontario incentive fund prior to the 24th day of October, 1985, or

(ii) in a new enterprise, if the grant or tax credit
was paid or allowed out of the new enterprise
incentive fund.

6.—(1) Subsections 8 (1) and (2) of the said Act are
repealed and the following substituted therefor:

. (1) A small business development corporation shall set
aside in a trust fund an amount of money,

(a) equal to 30 per cent of all amounts received by it as
equity capital where the small business development corporation is a Northern and Eastern small business development corporation; or

(b) equal to 25 per cent of all amounts received by it as
equity capital where the small business development corporation is not a Northern and Eastern small business development corporation,

and such trust fund shall be held by a trustee on behalf of the
corporation in trust for the corporation and for the Crown
jointly to be dealt with in accordance with this section.

(2) Subject to subsection (3), while any amount is held in
trust under subsection (1), the Minister shall permit payment
from the fund of an amount equal to,

(a) .4286 of the purchase price paid by the small business
development corporation to acquire an eligible
investment where the shares of the small business
development corporation were issued and fully paid
for prior to the 24th day of October, 1985 or where
the small business development corporation is a Northern and Eastern small business development corporation; or

(b) .3572 of the purchase price paid by the small business development corporation to acquire an eligible investment where the small business development corporation is not a Northern and Eastern small business development corporation and the shares of the small business development corporation were not issued and fully paid for prior to the 24th day of October, 1985,

provided that the Minister is satisfied that the purchase price of such eligible investment has been paid in full in money or that the amount to be permitted to be paid out by the Minister will be used by the corporation in payment of the purchase price of the eligible investment.

(2) Subsection 8 (4) of the said Act is amended by striking out "paragraph 4" in the first line and inserting in lieu thereof "paragraph 5".

(3) Section 8 of the said Act, as amended by the Statutes of Ontario, 1983, chapter 26, section 2, is further amended by adding thereto the following subsection:

(7) Notwithstanding subsections (1) and (2), where the Minister has paid a grant pursuant to subsection 21 (8) or allowed a tax credit pursuant to subsection 22 (3), or where an applicant is deemed to have made an investment in equity shares of a small business development corporation pursuant to subsection 21 (9) or 22 (4), a small business development corporation shall set aside an amount of money equal to 30 per cent of all amounts received by it as equity capital prior to the 24th day of October, 1985, and the Minister shall permit payment from the fund in accordance with clause (2) (b).

7.—(1) Clause 9 (1) (a) of the said Act is repealed and the following substituted therefor:

(a) the investment is made in a small business and 75 per cent or more of the wages and salaries are paid by the small business,

(i) to employees whose ordinary place of employment is a permanent establishment of the small business located in northern or eastern Ontario where the small business development corporation making the investment is a
Northern and Eastern small business development corporation, and

(ii) in respect of operations in Ontario where the small business development corporation making the investment is not a Northern and Eastern small business development corporation.

(2) Subclause 9 (1) (b) (iii) of the said Act is repealed and the following substituted therefor:

(iii) any other business activity that may be prescribed with respect to investment in a business located in northern or eastern Ontario by a Northern and Eastern small business development corporation where the small business development corporation making the investment is a Northern and Eastern small business development corporation, or

(iv) any other prescribed business activity.

(3) Subclause 9 (1) (d) (ii) of the said Act, as amended by the Statutes of Ontario, 1981, chapter 35, section 4, is further amended by striking out "principal objects of the small business" in the second and third lines and inserting in lieu thereof "prescribed manufacturing and processing, prescribed tourist activities, business activities prescribed with respect to investment in a business located in northern or eastern Ontario by a Northern and Eastern small business development corporation or other prescribed business activity or activities in which the small business is primarily engaged".

(4) Subclause 9 (1) (d) (v) of the said Act, as re-enacted by the Statutes of Ontario, 1984, chapter 30, section 4, is repealed and the following substituted therefor:

(v) any prescribed purpose or use.

(5) Subsection 9 (1) of the said Act, as amended by the Statutes of Ontario, 1981, chapter 35, section 4 and 1984, chapter 30, section 4, is further amended by adding thereto the following clause:

(fa) the investment is made in a small business primarily located within the geographical boundaries prescribed by the regulations where the investment is
made by a Northern and Eastern small business development corporation; and

8. Subsection 12 (3) of the said Act is repealed and the following substituted therefor:

Interpretation

(3) For the purposes of this section,

(a) "major shareholder" means a person who holds,

(i) 20 per cent where the small business development corporation is a Northern and Eastern small business development corporation, or

(ii) 10 per cent where the small business development corporation is not a Northern and Eastern small business development corporation,

or more of the voting rights attached to all equity shares of the small business development corporation from time to time outstanding;

(b) a small business development corporation is widely held if the corporation has,

(i) five or more shareholders, each holding not more than 20 per cent of the issued and outstanding shares of the corporation, where the small business development corporation is a Northern and Eastern small business development corporation, or

(ii) ten or more shareholders, each holding not more than 10 per cent of the issued and outstanding equity shares of the corporation, where the small business development corporation is not a Northern and Eastern small business development corporation,

and none of the shareholders is an associate or affiliated corporation; and

(c) where the small business development corporation is a Northern and Eastern small business development corporation, "associate" means, in addition to those definitions set out in subclauses 1 (1) (a) (ii) to (viii), any corporation of which such person beneficially owns directly or indirectly equity shares
carrying more than 20 per cent of the voting rights attached to all equity shares of the corporation for the time being outstanding.

9. Sections 15 and 16 of the said Act are repealed and the following substituted therefor:

15. Notwithstanding section 148 of the Business Corporations Act, 1982, every corporation in respect of a financial year or any part thereof during which the corporation was registered under this Act shall comply with the requirements of Part XII of the Business Corporations Act, 1982 regarding the appointment and duties of an auditor and the corporation shall submit to the Minister within six months after the end of each financial year its financial statements for the year and the auditor's report thereon.

10. Subsection 17 (2) of the said Act, as amended by the Statutes of Ontario, 1981, chapter 35, section 6, is repealed and the following substituted therefor:

(2) A small business development corporation shall notify the Minister, in the prescribed form, of any proposed action involving,

(a) any arrangement under section 181 of the Business Corporations Act, 1982 that it proposes to place before its shareholders for approval;

(b) any action by the corporation which would have the effect of reducing the stated capital account of any class or series of equity shares;

(c) the purchase, surrender, redemption or conversion of any equity share of the corporation;

(d) the disposition or sale of any eligible investment; or

(e) the entering into, or amendment of, any shareholder agreement relating to the small business development corporation or any corporation in which the small business development corporation maintains an investment,

at least twenty-one days prior to carrying out the proposed action.

11.—(1) Subsection 21 (1) of the said Act is repealed and the following substituted therefor:
(1) Subject to subsections (2) and (3), a person who is the beneficial and registered owner of equity shares of a small business development corporation may make an application in the form prescribed by the Minister for a grant and the Minister may pay a grant equal to,

(a) 30 per cent in the case of shares of a Northern and Eastern small business development corporation; or

(b) 25 per cent in the case of shares of a small business development corporation that is not a Northern and Eastern small business development corporation,

of the amount of money actually paid by the applicant to the small business development corporation for equity shares issued to the applicant by that corporation.

(2) Section 21 of the said Act, as amended by the Statutes of Ontario, 1983, chapter 26, section 6, is further amended by adding thereto the following subsections:

(8) Notwithstanding subsection (1), the Minister may pay a grant equal to 30 per cent of the amount of money actually paid by the applicant to the small business development corporation for equity shares where the Minister is satisfied that the shares were fully paid for and issued to the applicant by the small business development corporation prior to the 24th day of October, 1985.

(9) Where, prior to the 24th day of October, 1985,

(a) the Minister has consented in writing to the repayment of any advance owing to a shareholder of a small business development corporation in accordance with provisions prescribed under subclause 9 (1) (d) (v); and

(b) a substantial portion of the advance approved by the Minister has been made,

an application for a grant under subsection (1) shall be treated as if an investment equal to the full amount of the advance approved by the Minister was paid by the applicant to the small business development corporation for equity shares that were fully paid for and issued to the applicant prior to the 24th day of October, 1985.

12.—(1) Subsection 22 (1) of the said Act is repealed and the following substituted therefor:
(1) Subject to subsection (2), a corporation that is the beneficial and registered owner of equity shares of a small business development corporation may, subject to the approval of the Minister, deduct from the tax otherwise payable by it under Part II of the *Corporations Tax Act*, an amount equal to,

(a) 30 per cent in the case of shares of a Northern and Eastern small business development corporation; or

(b) 25 per cent in the case of shares of a small business development corporation that is not a Northern and Eastern small business development corporation,

of the amount of money actually paid by the corporation to the small business development corporation for equity shares issued to it by the corporation.

(2) Section 22 of the said Act is amended by adding thereto the following subsections:

(3) Notwithstanding subsection (1), the Minister may approve the deduction by a corporation from the tax otherwise payable by it under Part II of the *Corporations Tax Act* of an amount equal to 30 per cent of the amount of money actually paid by the corporation to the small business development corporation for equity shares where the Minister is satisfied that such shares were fully paid for and issued to the corporation by the small business development corporation prior to the 24th day of October, 1985.

(4) Where, prior to the 24th day of October, 1985,

(a) the Minister has consented in writing to the repayment of any advance owing to a shareholder of a small business development corporation in accordance with provisions prescribed under subclause 9 (1) (d) (v); and

(b) a substantial portion of the advance approved by the Minister has been made,

an application for a tax credit under subsection (1) shall be treated as if an investment equal to the full amount of the advance approved by the Minister was paid by the applicant to the small business development corporation for equity shares that were fully paid for and issued to the applicant prior to the 24th day of October, 1985.
13. Subsections 22a (3) and (4) of the said Act, as enacted by the Statutes of Ontario, 1984, chapter 30, section 8, are repealed and the following substituted therefor:

(3) Before the Minister makes a grant or allows a tax credit to a shareholder of a small business development corporation that is not a Northern and Eastern small business development corporation in respect of equity shares issued on or after the 24th day of October, 1985, the small business development corporation shall file an election in the prescribed form designating, with respect to each equity share, the fund described in clause (1) (b) or (c) from which a grant or tax credit is to be paid or allowed to the holder of such equity share.

(4) The Minister shall make a grant or allow a credit to a shareholder of a small business development corporation with respect to each equity share issued on or after the 24th day of October, 1985,

(a) from the fund described in clause (1) (a), where the small business development corporation that issued the share is a Northern and Eastern small business development corporation; or

(b) from the fund designated by the small business development corporation in the election filed under subsection (3) where the small business development corporation that issued the share is not a Northern and Eastern small business development corporation.

14. Paragraphs 1, 2, 3 and 4 of section 24 of the said Act are repealed and the following substituted therefor:

1. Where an equity share of the small business development corporation is purchased or otherwise acquired by the small business development corporation for a total consideration equal to or greater than that for which the share was issued, the small business development corporation shall pay to the Minister an amount equal to,

(a) in the case of an equity share of a small business development corporation issued and fully paid for prior to the 24th day of October, 1985,

(i) 30 per cent where, at the time of purchase or acquisition, the small business
development corporation does not maintain at least 70 per cent of its assets in the form of eligible investments or is not complying fully with the Act, the spirit and intent of the Act or the regulations, or

(ii) 25 per cent where, at the time of purchase or acquisition, the small business development corporation is maintaining at least 70 per cent of its assets in the form of eligible investments and is complying fully with the Act, the spirit and intent of the Act and the regulations,

of the consideration paid to the corporation by the shareholder for the share at the time it was issued; or

(b) in the case of an equity share of a small business development corporation issued and paid for on or after the 24th day of October, 1985, an amount equal to,

(i) 30 per cent where the share is a share of a Northern and Eastern small business development corporation, or

(ii) 25 per cent where the share is a share of a small business development corporation that is not a Northern and Eastern small business development corporation,

of the consideration paid to the corporation by the shareholder for the share at the time the share was issued.

2. Where an equity share of the small business development corporation is purchased or otherwise acquired by the small business development corporation for a total consideration that is less than that for which the share was issued, the small business development corporation shall pay to the Minister,

(a) in the case of an equity share of a small business development corporation issued and fully paid for prior to the 24th day of October, 1985, an amount of money equal to,
(i) .4286 where, at the time of purchase or acquisition, the small business development corporation does not maintain at least 70 per cent of its assets in the form of eligible investments or is not complying fully with the Act, the spirit and intent of the Act or the regulations, or

(ii) .3572 where, at the time of purchase or acquisition, the small business development corporation is maintaining at least 70 per cent of its assets in the form of eligible investments and is complying fully with the Act, the spirit and intent of the Act and the regulations,

of the gross consideration paid by the corporation for the purchase or acquisition of the share; or

(b) in the case of an equity share of a small business development corporation issued and paid for on or after the 24th day of October, 1985, an amount equal to,

(i) .4286 where the share is a share of a Northern and Eastern small business development corporation, or

(ii) .3572 where the share is a share of a small business development corporation that is not a Northern and Eastern small business development corporation,

of the gross consideration paid by the corporation for the purchase or acquisition of the share.

3. Where the registration of a small business development corporation is revoked or where the corporation proposes to wind up or dissolve, it shall pay the Minister,

(a) in the case of a small business development corporation registered prior to the 24th day of October, 1985,

(i) where, at the time of the revocation, winding up or dissolution, the small business development corporation is not
maintaining 70 per cent of its assets in the form of eligible investments or is not complying with the Act, the spirit and intent of the Act and the regulations, an amount equal to,

(A) 30 per cent of the value of all of the small business development corporation's shareholders' equity to an amount not exceeding the aggregate of the grants or tax credits made or allowed by the Minister in respect of all shares issued and outstanding prior to the 24th day of October, 1985,

(B) 25 per cent of the value of all of the small business development corporation's shareholders' equity to an amount not exceeding the aggregate of the grants or tax credits made or allowed by the Minister in respect of all equity shares issued on or after the 24th day of October, 1985,

and outstanding at the time of revocation, winding up or dissolution, calculated in the manner prescribed, or

(ii) 25 per cent of the value of all the small business development corporation's shareholders' equity to an amount not exceeding the aggregate of the grants or tax credits made or allowed by the Minister in respect of all equity shares issued and outstanding at the time of the revocation, winding up or dissolution, calculated in the manner prescribed, where, at the time of the revocation, winding up or dissolution, the small business development corporation is maintaining 70 per cent of its assets in the form of eligible investments and is complying with the Act, the spirit and intent of the Act and the regulations;

(b) in the case of a small business development corporation registered after the 24th day of October, 1985, an amount equal to,
(i) 30 per cent where the share is a share of a Northern and Eastern small business development corporation, or

(ii) 25 per cent where the share is a share of a small business development corporation that is not a Northern and Eastern small business development corporation,

of the value of all of the small business development corporation's shareholders' equity to an amount not exceeding the aggregate of the grants or tax credits made or allowed by the Minister in respect of all equity shares issued and outstanding at the time of revocation, winding up or dissolution calculated in the manner prescribed.

4. Subject to paragraph 6, where a small business development corporation reduces by any other means the stated capital account of any class or series of equity shares, the small business development corporation shall pay to the Minister,

(a) in the case of a reduction of stated capital with respect to shares issued prior to the 24th day of October, 1985, an amount equal to the lesser of the aggregate of the grants and tax credits made or allowed by the Minister in respect of all equity shares previously issued by the small business development corporation less any amounts previously paid to the Minister under this section and either,

(i) 30 per cent of the amount of the reduction to the stated capital accounts where, at the time of the reduction of stated capital, the small business development corporation does not maintain at least 70 per cent of its assets in the form of eligible investments or is not complying fully with the Act, the spirit and intent of the Act or the regulations, or

(ii) 25 per cent of the amount of the reduction to the stated capital accounts where, at the time of the reduction of stated capital, the small business development corporation is maintaining at least 70 per cent of its assets in the form of eligible
investments and is complying fully with the Act, the spirit and intent of the Act and the regulations;

(b) in the case of a reduction of stated capital with respect to shares issued on or after the 24th day of October, 1985, an amount of money equal to the lesser of the aggregate of the grants and tax credits made or allowed by the Minister in respect of all equity shares previously issued by the small business development corporation less any amounts previously paid to the Minister under this subsection and either,

(i) 30 per cent of the amount of the reduction to the stated capital accounts where the share is a share of a Northern and Eastern small business development corporation, or

(ii) 25 per cent of the amount of the reduction to the stated capital accounts where the share is a share of a small business development corporation that is not a Northern and Eastern small business development corporation.

5. Where a small business development corporation proposes to wind up or dissolve or where the registration of the small business development corporation is revoked or its registration is surrendered, the small business development corporation shall immediately pay to the Minister an amount of money, in addition to any other amount under this section, equal to the interest earned on all moneys paid into the trust account established by the small business development corporation under section 8 and not paid out in accordance with subsection 8(2) or (2a) from the date of registration of the corporation under this Act.

6. No amount is payable to the Minister if the reduction to stated capital does not exceed real and unrealized losses associated with assets permitted to be held under section 10 and no reduction in stated capital has been made previously in respect of such losses.
7. For the purposes of this section, the amount to be paid by the small business development corporation to the Minister shall be calculated only with reference to equity shares on which a grant has been paid or a credit has been allowed under the Act and in respect of which no amount has been paid to the Crown pursuant to section 32.

8. For the purposes of this section, "shareholders' equity" means the aggregate of,

(a) the stated capital of all classes and series of equity shares;

(b) the retained earnings or deficit of the small business development corporation as adjusted to exclude,

(i) any prior losses from investments in assets not permitted under the Act,

(ii) any prior losses from activities not authorized by the articles of incorporation,

(iii) an amount equal to any prior profits less prior dividends paid and payable, to the extent that such amount does not exceed the amount of any prior losses from investments in assets permitted under section 10,

(iv) the amount of any prior dividends paid or dividends payable which have rendered or will render the small business development corporation insolvent within the meaning of the Business Corporations Act, 1982 or which diminished or will diminish its capital, and

(v) expenses paid to an officer, director, shareholder or associate of the small business development corporation, or to an associate of any such officer, director or shareholder, to the extent that such expenses are, in the opinion of the Minister, unreasonable; and

(c) such other amounts as may be prescribed.
9. A small business development corporation shall be deemed to have disposed of all its assets at fair market value immediately prior to the revocation or surrender of its registration, its winding up or dissolution for the purpose of determining prior losses or prior profits under clause (b) of paragraph 8.

15.—(1) This Act, except sections 6, 11 and 12, comes into force on the day following the day it receives Royal Assent.

(2) Sections 6, 11 and 12 shall be deemed to have come into force on the 24th day of October, 1985.