

## **CEDIF FAQ**

**Q.**

Can a CEDIF use proceeds from an offering to repay a loan made by a shareholder, director, or officer where the loan has been used to pay expenses associated with the initial offering of the fund?

**A.**

A CEDIF may use proceeds from an offering to repay a loan made by a shareholder, director, or officer of the fund provided all the following conditions are met:

- The loan relates to the first specified offering made by the fund.
- The loan is used by the fund for the purposes of establishing the fund and preparing a specified offering.
- The loan has not been outstanding for more than 12 months.

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**Q.**

What are the investment pacing rules for CEDIF's?

**A.**

Fund Reinvestment (Addition Section 16): This section specifies the reinvestment requirements of the CEDIF. The reinvestment rules are as follows:

- 40% invested in eligible business(s) within 12 months.
- 60% invested in eligible business(s) within 24 months.
- 80% invested in eligible business(s) within 36 months.

The Minister may revoke a certificate of eligibility where a fund fails to meet these reinvestment requirements.

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**Q.**

How is a community defined?

**A.**

Defined Community (Amendment Section 1): This section defines a “community” for purposes of the CED program:

“...a group of persons situated within the Province that may be reasonably distinguished by common geographic, economic or cultural characteristics.”

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**Q.**

Is there a cap on the total credits that can be issued in any year?

**A.**

Tax Credit Cap (Repealed Section 9): The \$5 million total program tax credit cap on the Equity Tax Credit has been repealed.

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**Q.**

If a person has more than one residence, how does this impact on their ability to serve on the Board?

**A.**

Section 3(b) of the Equity Tax Credit Regulations requires that a CEDIF seeking registration under the ETC program must have a board of directors consisting of not less than six individuals "...who are residents of the community in which the corporation or association carries on business..."

Issues arise when an individual has a residence in more than one geographical location. With respect to a CEDIF with a 'defined community' differentiated in terms of geography, and where an individual resides in more than one domestic residence, the Department considers the individual to be resident in the geographic area of their 'principal domestic residence'. The 'principal domestic residence' is the residence in which the individual ordinarily inhabits.

For purposes of section 3(b), an individual can have only one principal domestic residence.

In cases where an individual resides in more than one residence, some of the factors the Department would consider in determining the individual's principal domestic residence would be:

- The percentage of time an individual inhabits a particular residence.
- Proximity to the individual's (or spouses) place of business or employment.
- Type of housing (i.e. a summer cottage would less likely be considered a principal domestic residence).

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**Q.**

If an individual/investor decides to 'cash in' or transfer their shares (i.e. sell them and invest into another RRSP instrument), what impact would this have on the tax credit offered under the CEDIF?

**A.**

Regardless of the share holding within or outside a registered holding, the tax credit legislation defines the "holding period" for these shares to be 4 years. That is if an individual disposes of these shares prior to the expiration of the 4 years, they may be required to repay the tax credit (30%). There are limited exceptions such as death of the holder. Beyond this hold period there is no claw-back of the credit.

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**Q.**

How likely can an individual decide to withdraw the investment from the CEDIF? From what I can determine there is no market for CEDIF shares. (i.e. I cannot take my shares and easily sell them to someone else).

**A.**

These shares are not freely tradable. Each fund is encouraged to maintain a liquidity pool of 10-20% of the capital raised. Within the 4 year hold period the Fund is to invest the capital in accordance with the terms of the simplified offering document. It is also expected that in many instances there will be multiple offerings until the Fund achieves a reasonable capitalization and the ability to make investments with some limited diversification.

An investor that wants to “cash out” is presented with limited opportunities:

- a) Sell the shares back to the Fund (assumes the Fund has cash available to repurchase);
- b) Sell the shares to any other investor within the fund for an agreed upon value (supply/demand will set the price);
- c) Sell/transfer the shares between their registered and non-registered holdings;
- d) Sell to any other investor who is able to utilize an exemption under the NS Securities Act.

The “getting out” is analogous to holdings in a private company.

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**Q.**

Is it true that a CEDIF can be created for the purposes of investing in my own specific company?

**A.**

Yes. Either a separate company is set up solely to raise the capital and invest into your company or your company itself could register as a CEDIF. The former is usually preferred as under the latter you would not be able to hold more than 20%.

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**Q.**

Is it true that the CEDIF set up to invest in my company has 6 local Directors on the board of the Fund to manage the investment on behalf of the individuals who invested in the Fund rather than on the board of my company?

**A.**

True. There can be some overlap of these persons; however, we strongly encourage persons to be able to separate the interests of your company from those of the Fund. That is, these directors must be looking at the interests of the CEDIF investors first.

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**Q.**

How many people can invest in the fund?

**A.**

There is no limit on the number of persons who can invest.

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**Q.**

Is there anyone that can help me fill out the required CEDIF application forms?

- A.** There are many individuals located throughout the province who can provide assistance in completion of the Form 1 Offering Document and attachments. Staff of the Office of Economic Development can provide some direction and in some areas the Regional Development Authority (RDA), Community Business Development Corporation (CBDC) and/or established CEDIFs will provide assistance.
  - B.** Please refer to the CEDIF website at [www.gov.ns.ca/econ/cedif](http://www.gov.ns.ca/econ/cedif) for copies of completed Funds, contacts and additional information.
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**Q.**

How long will the application process take (submission of documents until approval)?

**A.** The length of time needed to complete the documentation, have it reviewed and receive the Letter of Non-objection (NS Securities Commission) and Equity Tax Credit Certificate (NS Department of Finance) varies widely between applicants.

This could be approximately 6 weeks from the time a quality submission is received, to more than 3 months for a complex offering which is being pulled together entirely by volunteers. The time is directly related to the quality and complexity of the proposed fund. In many cases, several resubmissions are required before a letter of non objection is attained so it is important to submit all documents as early as possible. Most Funds tend to submit their offering documents just in time to be ready for the RRSP season. This flood of documents can overload the NS Securities Commission and cause further delays.

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**Q.**

Do we need a selling agent or can we as directors, officers, members sell/promote the shares ourselves?

- A.** Most Funds have sold their shares directly. That is, the Officers and Directors have sold it through their networks of contacts. A professional selling agent is permitted but to date this has not been the norm.

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**Q.**

How do I get the 30% Equity Tax Credit?

**A.**

You will receive an ETC-1 certificate in the mail from the NS Finance, which you will include in your income tax return. This certificate will then be used to give your 30% Equity Tax Credit. This tax credit will reduce your provincial taxes payable for the current tax year and any additional taxes you've paid in the last three years up to the value of the credit. If you still have additional, unused tax credit amounts, they can be carried forward up to seven years to reduce your provincial taxes until you've used up the full value of the equity tax credit.

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**Q.**

How do I get out of the Fund?

**A.**

First of all, the investments are essentially locked in for four years due to the Equity Tax Credit program. In emergencies, and at the Board's discretion, the money can be taken out before the four-year term expires. However, in this instance you will have to repay the 30% Equity Tax Credit.

After the four-year term, there are two options when seeking to get out of this fund. The first would involve selling your shares to an existing shareholder in the fund. If the buyer is not currently a shareholder in the fund, they can become one at the next share offering and then proceed to purchase your shares. The value of the shares at this time will be a negotiated amount between the buyer and the seller.

The second method of exiting the fund would be to apply to the Board of Directors of the fund to get your money out. Depending upon the liquidity of the fund at that particular time, the board will decide whether it is possible and when it is possible to buy back the shares. There will be a small percentage of the fund invested in relatively liquid securities to allow for such instances. However, depending upon specific circumstances, the fund may have much of its capital tied up in longer-term equity positions and may be unable to offer you a way out at that time. The Choice of redemption or cashing out the shares is totally up to the fund itself and not the investor. Also, due to the community nature of the fund, the Board of Directors will make every effort to responsibly serve the shareholders.

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**Q.**

How do typical Pooled Funds invest my money?

**A.**

The Board of Directors will make the investment decisions for the fund. This board will be voted in at every annual meeting by the shareholders. The board will be able to make investments in any active business within the defined community

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**Q.**

What is the best time to invest in a CEDIF?

**A.**

You get the same benefits, regardless when you invest. However, if you invest within 60 days of the end of year (the same as RRSP contribution time limit) you will receive these benefits as soon as you file your current tax return. In the event that you invest in mid-March 2005, for example, you will receive the RRSP deduction and 30% Equity Tax Credit benefits but not until the next tax season, in 2006. Your benefits will simply be a year delayed because of the 60-day limit for RRSPs and Equity Tax Credits.

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**Q.**

Can one person have a controlling interest in a CEDIF and does being involved mean that your company wouldn't qualify for investment?

**A.**

No, no person can own more than 20% of the fund and any company with at least 25% of its employees in Nova Scotia and under the \$25 Million in assets can qualify if it is in the defined community.

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**Q.**

Is there a minimum purchase in a CEDIF?

**A.**

The minimum investment is defined in the Form 1 Offering Document. People investing minimal amounts in a Fund may not want to take advantage of RRSP eligibility because they will need to maintain a self-administered RRSP account at an annual cost

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**Q.**

What is in it for my community?

**A.**

- Jobs created locally
  - Support for local produced product or service
  - Local control over investment decisions
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**Q.**

Who can invest?

**A.**

Any resident of Nova Scotia over the age of 19 is eligible to invest in a CEDIF, anywhere in the province.

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**Q.**

Who decides how my money will be spent?

**A.**

A board of directors will manage the CEDIF. The board, selected by the investors, decides which business or businesses to invest in. At least 6 directors must be from the community.

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**Q.**

How much money can I expect to make?

**A.**

Returns are determined solely by the performance of the business(es) into which the fund invests.

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**Q.**

How will I know how my money is doing?

**A.**

The program has two requirements to keep investors up to date. First, an annual auditors report must be distributed to the shareholders, and second, an annual general meeting must be held.

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**Q.**

Where can I go to get more information?

**A.**

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CED Investment Funds website: [www.gov.ns.ca/econ/cedif](http://www.gov.ns.ca/econ/cedif)

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**Q.**

Since no one can own more than 20% of the fund, is it possible for the owners to change the sole and express purpose set out when the fund was established (i.e. set up with specific target and then change)? This relates to the power of the elected directors.

**A.**

Theoretically yes. However, in the offering document the stated intention of the investment is clearly stated and in order to change this direction there would need to be an amendment to the company.

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**Q.**

If after the fund has been set up, some time in the future, the company being invested in has an offer to be bought out, thus providing profits for shareholders, what happens then?

**A.**

If a fund invested in a given company, and then that company was approached by a takeover whereby the shareholders would realize a significant gain, this would be great. If the acquiring company is paying cash the cash would flow to the Fund which could then reinvest it elsewhere or pay out the money to the shareholders by way of a special dividend. If this occurs less than 4 years from the time of the investment there may be complications, but it can be done.

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