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Re: Consultation on Scientific Research and Experimental Development – Deloitte's comments

We are writing to provide our comments on the consultation paper entitled "Scientific Research and Experimental Development" (SR&ED) released by the Department of Finance Canada (Finance) on January 31, 2024. We appreciate the fact that Finance has released a consultation paper to gather feedback on this important program and believe that this affords stakeholders with the opportunity to provide input based on their experience and practical insights. We believe this approach will foster a greater understanding of the issues being addressed and will ultimately help to improve a valuable program that will contribute towards a competitive Canadian economy.

Deloitte and its affiliated entities constitute one of the largest professional service firms in Canada. We offer our clients a broad range of fully integrated tax services, combining insight and innovation from multiple disciplines with business and industry knowledge. Our Global Investment and Innovation Incentives (*Gi³*) team is one of the leading incentives practices in Canada with more than 160 practitioners. We work with many taxpayers, ranging from individuals and private businesses to Canadian and global multinationals, to advise and support them in their compliance obligations under the *Income Tax Act*[1] and to assist them in identifying and claiming SR&ED and other government incentives in Canada and, with the help of our member firms, in other countries.

The SR&ED program has been a cornerstone of federal assistance for research and development (R&D) activities in Canada, providing tax incentives through income deductions and investment tax credits (ITCs). While the SR&ED program is a valuable source of support, we recognize that businesses also benefit from many different direct R&D incentive programs through platforms such as the Industrial Research Assistance Program (IRAP), the Strategic Innovation Fund (SIF), the Regional Development

[1] RSC 1985, c. 1 (5th Supp.), as amended, herein referred to as "the Act". Statutory references therein are to the Act.

Agencies, and the Trade Commissioner Service. These programs have played a significant role in fostering business innovation and growth, with IRAP alone providing $489.4 million in funding to over 3,400 Canadian small- and medium-sized enterprises (SMEs) in 2022-23.[2]

Although Canada's SR&ED program is generous, Canada continues to lag amongst G7 countries in terms of R&D expenditures as a percentage of gross domestic product (GDP).[3] The global R&D landscape is changing rapidly, creating challenges in North America. Canada's share of global R&D spending is declining, emphasizing the need for Canada to become a top choice for R&D investment worldwide. Recognizing this trend, the federal government has expressed its commitment to reviewing and modernizing the SR&ED program to ensure its effectiveness in encouraging R&D that benefits Canada.

In recent years, the Canada Revenue Agency (CRA) has taken steps to improve the service experience for businesses participating in the SR&ED program. They have enhanced online accessibility, released simplified eligibility guidelines, and introduced an interactive self-assessment and learning tool. The CRA has also implemented a new national workload system to enhance the consistency, efficiency, and the quality of claims reviews. In addition, audit efforts are being targeted towards addressing high-risk activity and non-compliance to uphold the fairness and integrity of the SR&ED program. However, despite these efforts by the CRA, there is still widespread concern among some taxpayers regarding the lack of predictability, timeliness, and cost effectiveness in delivering SR&ED tax credits, resulting in a call for the government to take action to make necessary improvements.

In the 2022 federal budget,[4] the Canadian government announced its plan to undertake a full review of the SR&ED program, and Finance launched consultations on January 31, 2024, seeking input on how to improve the SR&ED program. We understand that these consultations are focused on **cost-neutral improvements** that will better support innovative businesses and create economic opportunities for Canadians. Given the current state of the Canadian economy and knowing that Canada faces challenges year after year with respect to its productivity and lack of investment in R&D, the government should reconsider whether additional investments in the Canadian R&D regime will effectively serve our economy and country.

In our submission, we provide recommendations and proposals for improving the SR&ED legislation and program administration, while considering cost neutrality, to ensure that the SR&ED program remains a vital catalyst for business innovation and economic growth in Canada.

It is crucial, in our view, to recognize that while having an SR&ED program is laudable, its successful implementation depends on the effective utilization and uptake by taxpayers. Without a system that effectively incentivizes taxpayers, Canada's R&D intensity will continue to rank below the G7 average.

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[2] Canada, Department of Finance Canada, "Consultation Paper: Scientific Research and Experimental Development," para. 3.
[3] Statistics Canada, Gross domestic expenditures on research and development, 2021 (final), 2022 (preliminary) and 2023 (intentions)," released on December 22, 2023. See also the indicators and analysis published on the OECD's INNOTAX portal, such as the chart on Generosity of R&D tax incentives, for an overview of Canada's evolution compared to other OECD countries from 2000 to 2023.
[4] Canada, Department of Finance, 2022 Budget, Budget Plan, April 7, 2022, at 63.

SR&ED program recommendations for consideration

In Appendix 1, we have provided feedback on each key consultation question provided by Finance.

We would first like to highlight the following key points:

- Canada's tax policy must play a critical role in enhancing Canada's productivity and global competitiveness. The key to achieving this is to create a tax ecosystem that fosters innovation, attracts investment, and maintains a balanced budget. Through a combination of corporate, personal, and indirect taxes, the tax burden can be distributed equitably across different sectors of the economy, while simultaneously promoting economic growth through targeted tax incentives and allowances.
- Our recommendations are based on the recognition that high-growth businesses are the primary drivers of productivity and innovation in Canada. As a result, it is imperative for the government to prioritize tax policies that actively support the growth of these businesses. In formulating such policies, it is essential to consider incentives that promote business growth, regardless of the size, type, sector, or location of the business in question.
- To this end, the government should explore various incentives that specifically encourage business growth and productivity. Ensuring accessibility for businesses of all sizes and sectors creates an equal opportunity environment that empowers all businesses to invest in R&D, attract, develop, and retain skilled workers, and compete globally and sustainably for decades to come.
- Streamlining the SR&ED program is a critical aspect of improving Canada's tax ecosystem. Simplifying the SR&ED application process, reducing administrative burdens, and providing additional and clearer guidelines will create predictability within the program, which is key for investors and entrepreneurs, thereby encouraging greater participation from businesses and reducing barriers to attracting direct foreign investment in Canadian R&D.
- In addition, greater transparency and consistency in the program's evaluation and decision-making processes will instill confidence in businesses and foster a culture of innovation and investment. **Businesses need predictability**. They need a clear understanding of how and when the government will, or will not, support them in order to make the necessary investment decisions.

While the SR&ED program has been, and still is, a valuable source of support for R&D activities in Canada, it is important to recognize that it may not be the sole solution to address Canada's ongoing productivity challenges.

Canada is currently experiencing a period of sluggish GDP growth and lower labour force productivity. To address the current economic crisis, we recognize that it is crucial to implement decisive and cost-effective measures.

There are several key considerations that would support the need for a multi-pronged approach to improving productivity and enhancing Canada's R&D regime:

- While revisiting the refundability of SR&ED tax credits for entities other than Canadian-controlled private corporations (CCPCs) to attract foreign investment and maintain the global competitiveness of the Canadian SR&ED program, adjust the SR&ED expenditure threshold from $3 million to $5 million for CCPCs to align with current business requirements and future growth needs.

- Consider that the new Pillar Two rules may have a significant impact on the accessibility to the non-refundable SR&ED tax credits and may limit the effectiveness of the SR&ED program for many large claimants in Canada.
- Reinstate capital expenditures as eligible SR&ED expenditures as Canadian businesses need to invest in new facilities to be more productive and are looking for ways to improve their processes to stay competitive in the marketplace through SR&ED.
- Modernize the definition of SR&ED in the Act by removing the exclusion for commercial production[5] and no longer relying on the common law test developed over the years by the jurisprudence for eligibility, which may have become too restrictive over time to ensure relevance and clarity.
- Foster collaboration between academia and industry through additional incentives for businesses engaged in collaborative R&D projects.
- Simplify and streamline the application process, particularly for startups and SMEs, to reduce administrative burdens and improve predictability.
- Improve the overall efficiency and effectiveness of the SR&ED program by enhancing program administration, streamlining claim screening and service processes, shifting towards SR&ED process reviews versus claim reviews, improving timelines for obtaining SR&ED ITCs, and enhancing claim resolution methods.
- Improve complementarity and coordination with other funding programs, reducing duplication, and aligning eligibility criteria and application processes.
- Explore alternative measures, such as a patent box regime, to support the retention of intellectual property (IP) in Canada and reduce patenting costs for Canadian businesses. We have provided comments regarding a patent box regime in a separate submission, in response to other ongoing consultations.
- Ensure optimal use of resources within the SR&ED program, on a cost-neutral basis, by assessing overlap with other funding programs, reallocating funds from underperforming federal programs to enhance the SR&ED program and fostering collaboration and coordination with other government funding programs to maximize resources and avoid duplication of efforts.
- Provide clearer guidelines and examples, simplify eligibility requirements, and align reporting processes to encourage greater participation, especially from small businesses and startups.

While the SR&ED program encourages R&D investment, it may not translate directly into improved productivity across all sectors of the economy. Productivity improvements require a comprehensive approach that includes investments in technology adoption, skills development, process improvements, and the diffusion of innovation. **By focusing solely on R&D investment, Canada risks neglecting other factors that significantly impact productivity, such as inefficiencies in production processes, supply chain management, and workforce skills.**

Canada's SR&ED program is primarily focused on supporting R&D activities, which may not directly address the broader factors affecting Canada's historical productivity issues. A more holistic approach that addresses these factors is critical to obtaining sustainable productivity gains. We believe this could

[5] Subparagraph (i) of the "SR&ED" definition of subsection 248(1) of the Act.

be achieved by making targeted investments in skills development and training programs, promoting technology adoption and innovation diffusion, fostering collaboration between industry, academia, and government, and implementing regulatory and policy reforms to remove barriers and encourage competition, innovation, and productivity growth.

It is also important to recognize the time lag between R&D investment and tangible productivity and commercialization gains. R&D activities often have a long gestation period before research outcomes are commercialized and integrated into production processes. Relying solely on the SR&ED program may not provide the immediate productivity improvements that Canada urgently needs. Therefore, a comprehensive approach that considers short- and long-term measures may be necessary to ensure timely and sustainable productivity gains.

Canada needs to consider its position in the global marketplace and identify areas where it has a comparative advantage today and strategic opportunities to rapidly gain future comparative advantages. While the SR&ED program can support R&D efforts, it may not be sufficient to address broader competitiveness challenges. A focused approach on productivity improvements in specific sectors or industries, aligned with our comparative advantages, is critical to enhancing Canada's global competitiveness.

These recommendations are critical for the continued success and prosperity of Canadian businesses. Therefore, we urge the government to implement these improvements to create an environment that supports the growth and competitiveness of Canadian businesses.

We have provided more detail on each of these issues, as well as on specific questions from Finance as part of the formal consultation process, in Appendix 1.

We are committed to playing a key role in shaping Canada's future and we hope that our recommendations will provide helpful guidance as you consider how best to implement cost-neutral improvements to the SR&ED program.

We would be pleased to meet with you, or other officials from the Department of Finance, to discuss our submission further.

We consent to the disclosure of our comments under the *Access to Information Act* and have made a copy of our submission available on our website at www.deloitte.ca.

Sincerely,

Deloitte, LLP

Rob Jeffery, CPA, CA
National Tax Policy Leader
Deloitte LLP

APPENDIX 1 - Consultations on Canada's SR&ED Program

Responses to key questions for consideration

1. **How can the SR&ED program remain effective in supporting R&D investment by businesses of all types in Canada? How can the SR&ED program better support the growth and success of R&D-intensive Canadian businesses going forward?**

Canada's SR&ED program plays a pivotal role in incentivizing businesses to invest in R&D in Canada, leading to scientific and technological advancements, increased productivity, and economic growth. However, there are several areas where the program can be improved to better support the Canadian economy and encourage businesses to conduct R&D within our borders and increase foreign investment in Canada.

Given the importance of the SR&ED program, we believe that Finance should proactively intervene to improve the administration of the program, striking a balance between the administrative burden on claimants and maintaining the integrity of the tax system.

While the tax authorities could play a significant role in administering the SR&ED program, they cannot address all the issues alone.

To ensure that the SR&ED program remains effective, Finance should take the lead by issuing updated guidance documents (e.g., enhanced explanatory notes with any legislative changes) that align with the legislative intent of incentivizing R&D.[6] By doing so, Finance can help improve the administration of the SR&ED program alongside the CRA to ensure that it delivers the intended benefits to taxpayers and encourages businesses of all types to invest in R&D in Canada.

<u>Enhancing the effectiveness and support of the SR&ED program for Canadian businesses</u>

Key insights:

Overall, we believe the SR&ED program has the potential to be a very beneficial program for the Canadian economy as a whole. However, studies indicate that Canadian R&D spending as a percentage of GDP is below the Organisation for Economic Co-operation and Development (OECD) average and has been declining rather than increasing since the early 2000s.[7]

In order for the program to be effective in supporting R&D investment in Canada, we recommend that the government consider updating the program to align with the needs and dynamics of our current economy, while recognizing the sound foundation upon which the SR&ED program was built.

[6] For example, during the COVID-19 pandemic, Finance issued several guidance documents detailing the objectives and intent of each support program and their purpose.
[7] Institut de la statistique du Québec, "Dépenses intra-muros de R-D (DIRD) en pourcentage du PIB, Québec, Ontario, pays de l'OCDE, Union européenne, G7 et certains pays hors OCDE," January 30, 2023 (available in French only).

While the existing structure of the program has its merits, it is critical to ensure that it remains relevant, competitive with other OECD countries, and effective in supporting R&D investment and fostering innovation in today's rapidly evolving business landscape.

Our recommendations:

- **Reconsider the refundability of the tax credit for entities other than CCPCs and the tax credit rate:** Businesses need access to a skilled workforce, capital markets and customers, as well as support for business transformation including R&D. Because both people and projects are mobile in the global marketplace, businesses have global options to address these challenges. The decision of where in the world to invest will depend on several factors, one important of which is direct government direct support for business innovation. By introducing greater refundability of SR&ED incentives, including for foreign investors, Canada will offer a distinct advantage over many other R&D tax regimes and will create an extremely competitive R&D regime. It should be noted that many other countries offer competitive R&D tax credit rates that could attract foreign investment.[8] To the extent that entities are otherwise taxable, over time, such a change represents an effective source of financing for corporations, as the investment tax credits would otherwise be available to offset against income taxes payable in Canada.

- **Adjust immediately current SR&ED expenditure thresholds:** To remain competitive, the government should immediately adjust the expenditure thresholds to align with the current requirements of R&D-focused businesses. This amendment should account for inflation in the future and provide greater support to Canadian businesses that are either in the process of scaling up or preparing for future growth:
  - At a minimum, reconsider the $3 million annual expenditure limit for CCPCs, which has now been in place for more than 15 years, to reflect the realities of the actual costs of industrial research.
  - At a minimum, reconsider the $50 million taxable capital in Canada used to determine the $3 million annual expenditure limit, which has now been in place for more than 15 years, to reflect the realities faced by businesses today (e.g., the need for significant financing to expand operations).
  - Reconsider the need to apply the above-noted limits in relation to the ability to access enhanced/refundable ITCs on an associated basis.

- **Consider the impact of the new Pillar Two rules:** The new Pillar Two rules may have a significant impact on the accessibility to the non-refundable SR&ED tax credits and may limit the effectiveness of the SR&ED program for many large businesses in Canada. The government must consider that its current SR&ED program and non-refundable SR&ED tax credits may become non-relevant for organizations subject to Pillar Two rules. Without access to the SR&ED incentives in Canada due to

[8] France is offering an R&D credit equal to 30% of the first EUR 100 million of qualifying R&D expenditures incurred during the tax year, and the rate is reduced to 5% for qualifying R&D expenditures exceeding that amount. Australia is offering a 38.5% non-refundable tax offset for large enterprises and 43.5% refundable tax offset for SMEs (less than AUD 20 million aggregate turnover). Germany and Denmark offer a 25% R&D tax credit. See Deloitte US, Survey of global investment and innovation incentives, October 2020; and the OECD's INNOTAX portal.

Pillar Two impact, businesses will consider other jurisdictions where the R&D regime is more adapted to the Pillar Two rules.

- **Improve predictability by simplifying and streamlining the application process:** The current SR&ED tax credit application and disbursement process is complex and time-consuming. Simplifying this process would help businesses, especially startups or entities in urgent need of funding for their R&D projects, take full advantage of the program and support their innovation efforts. The SR&ED program should continue to focus on reducing administrative burdens and providing clearer guidelines to encourage greater business participation. Simplifying the application process, standardizing documentation requirements, and improving communication channels with the CRA would make it easier for businesses to apply for and benefit from the program.

- **Tailor support for startups and SMEs:** Startups and SMEs often face unique challenges in accessing funding for R&D activities. In addition, venture capital or bank financing is not always available to startups. The SR&ED program should consider providing enhanced tax incentives specifically tailored to these businesses and a simplified application process to help them take full advantage of the program and support their innovation efforts. Another alternative would be to consider allowing SMEs and startups to have their SR&ED claims pre-approved without further review for two or three years, similar to the United Kingdom's Advanced Assurance program.[9] This type of service would help startups and SMEs overcome financial constraints and foster innovation.

- **Reinstate capital expenditures as eligible SR&ED expenditures:** In the context of a global push to decarbonize the economy, and to address Canada's productivity challenges, businesses will invest in new facilities and look for ways to improve their processes and remain competitive in the marketplace, which may require SR&ED. Finance should consider reinstating capital expenditures as eligible SR&ED expenditures, to the extent that such capital expenditures are not addressed through other tax incentives, such as the various clean investment tax credits. Several countries consider capital expenditures in their R&D regime.[10] Removing capital expenditures from the SR&ED regime failed to recognize that capital investments are necessary to perform R&D activities in Canada and that important industries have been placed at a distinct disadvantage as a result of this change. This significant change in Canada's SR&ED regime may not have helped sustain our country's productivity.

- **Further enhance the program to foster improved collaboration between academia and industry:** Encouraging collaboration between R&D-intensive businesses and academic institutions can lead to innovation, knowledge transfer and commercialization of innovations developed by academic institutions. The SR&ED program could provide additional SR&ED incentives for businesses that engage in collaborative R&D projects with universities or research organizations, thereby promoting a culture of collaboration and innovation between the private and public sectors.

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[9] See United Kingdom, Research and Development (R&D) tax relief advance assurance.

[10] For example, Australia, the United Kingdom, and Mexico consider capital expenditures, or tools and software used for performing R&D or experimental tests. See Deloitte US, Survey of global investment and innovation incentives, October 2020.

- We recommend that the Canadian government consider adopting tax incentive measures similar to those offered by Ontario, Quebec, and Manitoba to support scientific collaborations between industry and research organizations.[11] These provinces offer specific enhanced SR&ED tax incentives to encourage the collaboration between the private sector and universities or research organizations. Quebec and Manitoba provide a fully refundable credit on an enhanced percentage of the payments made to eligible research institutes, and the Ontario business research institute tax credit (OBRITC) provides a refundable tax credit of 20% for qualified expenditures on SR&ED incurred under eligible contracts with eligible research institutes, with a $20 million annual cap.
- We recommend that the government evaluate and consider the Quebec, Manitoba, and Ontario approaches to incentivize collaboration between academia and industry. Adopting a similar incentive approach would send a strong message to the private sector to collaborate with academic organizations, leading to increased innovation, economic growth, and mutual benefits for all stakeholders involved.

[11] France also has a similar program: Tax credit for collaborative research - Crédit d’impôt collaborations de recherche (CICo).

2. **What improvements to the definition of SR&ED, the program's eligibility criteria, and/or the program's overall architecture should be considered?**

Evaluating and improving the definition of SR&ED, the program's eligibility criteria, and its overall architecture are essential for ensuring the effectiveness of Canada's SR&ED program and its competitiveness for attracting investment in Canada.

Modernizing the definition of SR&ED

Key insights:

The definition of SR&ED in Canada, as well as in other countries such as the United Kingdom, is largely based on the Frascati Manual.[12] Originally created in 1963 by experts from OECD member countries, the Frascati Manual has become the standard for R&D surveys and data collection worldwide. The definition is intended to support businesses in developing new products and processes through experimental development, thereby advancing technology.

The actual definition of SR&ED activities was introduced in the Act in 1985, when "experimental development" (ED) was added to the definition of SR&ED.[13] In 1998, the definition of SR&ED activities in the Act was revised to provide greater clarity and guidance to businesses and aimed to ensure that eligible activities were focused on scientific and technological advancements, as well as experimental development. Since then, the definition has undergone minor updates and clarifications to address specific issues and challenges faced by businesses.

As science and technology continue to rapidly evolve, there is a growing recognition that the current definition of SR&ED may not fully capture the scope of all eligible R&D activities performed in Canada.

The government needs to assess the alignment of the definition with the economic objectives and challenges for at least the next 25 to 30 years and ensure that the definition of SR&ED is updated to reflect the changing technological landscape, the evolving challenges faced by Canadian businesses in the 21st century, and how Canada can remain competitive with the R&D definitions in other OECD countries.

Our recommendations:

- **Align the definition of SR&ED with current international standards**, such as the updated Frascati Manual, to ensure the consistency and competitiveness of Canada's SR&ED regime:
    - As noted above, several countries, including Canada and the United Kingdom, have adopted a similar definition of R&D based on the Frascati Manual. The Frascati Manual continues to be relevant in the 21st century as it plays a crucial role in government policy by providing definitions and classifications of R&D activities, thus aiding discussions on science and technology policy. The latest edition of the Manual (2015) reflects revisions to address the complexity of the research and innovation landscape and the globalization of R&D. Some of the revisions were made to reflect cultural changes and evolving language usage in the

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[12] OECD (2015), *Frascati Manual 2015: Guidelines for Collecting and Reporting Data on Research and Experimental Development, The Measurement of Scientific, Technological and Innovation Activities* (Paris: OECD: Publishing, 2015).
[13] Before the May 1985 Budget Papers, the Act was referring to "scientific research" and "development." See Canada, Department of Finance, "Securing Economic Renewal," Budget Papers, May 23, 1985.

definition of R&D, especially in the context of experimental development, to keep it relevant and applicable. Given the constantly evolving R&D landscape, the government should modernize the definition of SR&ED to ensure that it aligns with the latest international standards, including the latest edition of the Frascati Manual (2015), and to ensure consistency, relevance, and competitiveness with other OECD countries.

  - Aligning the definition of SR&ED with current international standards is not enough to remain competitive in the future. Finance must also implement a process for regularly reviewing and updating the definition of SR&ED to prevent it from becoming outdated and to maintain its effectiveness in supporting R&D activities in Canada and competitiveness with other OECD countries. By implementing these recommendations, the government can ensure that the definition of SR&ED remains up to date, inclusive, and supportive of the diverse range of R&D activities in the country and could attract foreign investment in Canada.

- **Recognize emerging areas of innovation:** Modernizing the definition of SR&ED can help the government encourage and support emerging areas of innovation, such as artificial intelligence, blockchain, biotechnology, genomics or bioinformatics, which are advancing rapidly and have the potential to drive Canada's future economic growth. The current definition of SR&ED is the "systematic investigation or search that is carried out in a field of science or technology by means of **experiment or analysis**." Conducting R&D activities only through "experiment or analysis" may not be suitable for new areas of innovation. By updating the definition to specifically include new ways of conducting R&D, such as **virtual/simulation-based development**, the government can explicitly include these emerging areas and provide targeted support to businesses engaged in these areas.

- **Recognize the importance of optimization and continuous improvement** in the development of products or processes during commercial production to remain competitive in the global marketplace:
  - Optimization and the continuous improvement of products and processes are vital for bringing solutions to the market and helping businesses become more productive and remain competitive. However, the eligibility of SR&ED activities related to optimization and the continuous improvement of products and processes in a manufacturing setting is very often challenged by the CRA. This is due to the specific exclusion in the definition of SR&ED in the Act related to "commercial production."[14]
  - The government should consider removing the "commercial production" exclusion in the definition of SR&ED in the Act and introduce provisions that clarify what types of work can be claimed with respect to optimization and continuous improvement during production runs. This update is necessary to ensure that innovative activities that are essential for manufacturers to maintain or expand their market share are included in the definition of SR&ED. Recognizing the value of continuous improvement in bringing solutions to the market will foster a more innovative and competitive business environment and build on improvements in productivity gains.

[14] Subparagraph (i) of the definition of "SR&ED" in subsection 248(1) of the Act: "the commercial production of a new or improved material, device or product or the commercial use of a new or improved process."

- **Case law interpretation of the Canada's definition of SR&ED:** While the definition of SR&ED is provided in the Act, it has been interpreted for many years by the courts. The actual definition of SR&ED in the Act must be read in light of all the case law surrounding the definition. If no amendments are made to the definition in the Act, the courts will continue the same trend in interpreting the definition. When courts review the eligibility of SR&ED activities, they are always relying on the *Northwest Hydraulic* case.[15] In this decision, Justice Bowman has established a five-question test to determine whether the definition of SR&ED in the Act has been met. The original five-question test to determine SR&ED eligibility, which was devised over 20 years ago, may no longer be adequate in the current Canadian R&D landscape. Therefore, the government should reassess whether the basic common law test for determining eligibility, which includes these five questions, is still relevant in the current context. If no amendments are made to the definition of SR&ED in the Act, the courts will continue to interpret it based on the *Northwest Hydraulic* decision. Since the criteria were established in 1998 and largely drawn from now archived IC-86-4R3, which was developed following stakeholder consultations, it is essential to revisit and update them to reflect the evolving landscape of R&D in Canada and to ensure consistency and relevance in determining SR&ED eligibility.

- **Simplify eligibility requirements, especially for SMEs:** The SR&ED program could benefit from simplified eligibility criteria for small businesses and startups. Reducing the complexity to claim the SR&ED incentives for SMEs would make it easier for businesses to understand and meet the requirements, thereby encouraging greater participation.

- **Address interdisciplinary and collaborative research:** Many research projects today involve interdisciplinary collaboration, where different fields of science and expertise come together to solve complex problems. Modernizing the definition of SR&ED by taking into account the collaborative nature of research can provide clarity on how businesses engaged in such projects can access support. This will encourage collaboration between academia, industry, and government, leading to innovative solutions and increased R&D activity.

- **Clarify the boundaries and address industry-specific challenges:** Whether or not improvements are made to the definition of SR&ED, it is critical that Finance, in collaboration with the CRA, provide clearer guidelines and examples to help businesses determine whether their activities qualify as SR&ED. Again, predictability of the SR&ED incentives is key for businesses. In the past, industry/sector eligibility guidelines were published to provide both claimants and the CRA with insights into qualifying SR&ED activities for a specific industry. These guidelines were published in collaboration with industry experts and the CRA and were available to clarify the boundaries and address industry-specific challenges. This initiative should be revisited. Doing so would reduce ambiguity, improve consistency in the application and evaluation process, and provide greater certainty in claim outcomes. Some industries, such as IT or biotechnology, may face unique challenges in meeting the current SR&ED eligibility criteria. The government could consider initiating meetings with industry

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[15] *Northwest Hydraulic Consultants Ltd. v. The Queen*, (1998) 52 D.T.C. 1839 (TCC).

groups to gain a better understanding of their specific innovation needs and regulatory regimes and consider industry-specific guidelines or adjustments to ensure fair and equitable treatment across various sectors.

3. **How does the SR&ED program complement the existing suite of support programs for R&D in Canada? How could this complementarity be improved?**

As mentioned by the government, Canada's SR&ED program plays a crucial role in supporting R&D and innovation in Canada.[16]

As a tax credit **and not a discretionary program**, the SR&ED program is available to all taxpayers that meet its requirements – thus, **it is universally available**. It provides tax incentives to businesses that engage in eligible R&D activities and take scientific or technological risks, helping to stimulate innovation, drive economic growth, and position Canada as a global leader in R&D.

The SR&ED program could explore opportunities for collaboration with other funding programs at the federal, provincial, and regional levels, **while avoiding duplication of funding for the same activities**. This would ensure a coordinated approach to supporting R&D activities and commercialization and maximize the impact of available resources.

Since 2012 and following the recommendations of the Jenkins Report,[17] Canada has launched many direct incentive support programs that are discretionary, **not available to all taxpayers**, have limited funding and are **administered by many different government bodies and their representatives**. While we appreciate the important role of the government in the economy, we question the notion that government officials are better able to allocate innovation capital and make investment decisions than the Canadians involved in the creation of new technologies.

We believe that Canada needs broad-based tax incentives for all industries, and these should be complemented by grants aimed at supporting very specific priorities and non-R&D activities.

<u>Improving the complementarity of the SR&ED program with other support programs</u>

Key insights:

As noted in Finance's SR&ED consultation paper, the government offers many programs to support R&D activities performed in Canada. While some say that the SR&ED program complements the existing suite of support programs for R&D in Canada, we believe that it should be the other way around: **other programs should complement the SR&ED program** and the government should review all programs to avoid duplication of funding for activities.

Our recommendations:

- **Industrial Research Assistance Program (IRAP):** The IRAP program's objectives and requirements are similar to those of the SR&ED program. However, the IRAP program is discretionary rather than universally available, and dependent on available funding. The government should consider whether funding for these two programs (SR&ED and IRAP) should remain separate, or whether funds allocated to the IRAP program should be transferred to the SR&ED program to improve it. Alternatively, IRAP should become more focused on complementing the SR&ED program rather than

[16] 2022 Budget, supra note 4, at 83.
[17] Canada, Industry Canada, "<u>Innovation Canada: A Call to Action – Review of Federal Support to Research and Development, Expert Panel Report</u>" (Ottawa: Industry Canada, October 2011).

competing with it (i.e., more focused on funding non-SR&ED eligible activities or expenditures).

- **Strategic Innovation Fund (SIF):** The SR&ED program and SIF work hand in hand to support major investment in Canada. While the SR&ED program provides tax incentives for R&D activities, SIF offers financial support for large-scale, transformative, and collaborative investment projects across various sectors. The objectives and corresponding funding focuses should be clearly differentiated; it is important that incentive programs do not overlap funding for the same activities to ensure that businesses have access to maximum non-dilutive funding.

- **Regional Development Agencies (RDAs):** RDAs focus on regional economic development and provide funding and resources to businesses in specific regions to support innovation. RDA initiatives complement the SR&ED program by providing additional support for R&D activities and may fund activities already covered by the SR&ED program. The government should consider whether funding for RDA programs (e.g., FedDev Canada) should remain separate, or whether funds allocated to RDAs may be reallocated to the SR&ED program to improve it.

- **Enhance coordination and collaboration between funding programs to improve complementarity:** Fostering closer collaboration and coordination between the various support programs would ensure that businesses have a comprehensive understanding of the resources available and can access them more easily. This could include joint outreach initiatives, shared databases of eligible activities, and streamlined application processes. By enhancing the complementarity between the SR&ED program and other support programs for R&D in Canada, the government can create a more cohesive and effective ecosystem that supports innovation, drives economic growth, and positions Canada as a global leader in research and development.

- **Enhance cost neutrality:** Any changes made to the SR&ED program, such as redirecting funds to an IP patent box initiative, should be accompanied by a thorough assessment of overlap with other funding programs, as noted above. **By eliminating redundant funding and overlapping support, more resources can be deployed effectively to support innovation** without negatively impacting businesses.

4. **Are there more effective ways in which the overall level of assistance provided within the SR&ED program could be targeted? If so, what changes could be made to the SR&ED program to offset the costs of any proposed enhancements?**

The overall level of assistance provided through the SR&ED program **should always be and remain universally available to all industries** as the program is crucial for Canada's economic growth and competitiveness, regardless of industry.

However, the current structure of the Canadian SR&ED tax credit rules presents challenges for some businesses. While small CCPCs and unincorporated businesses can receive cash infusions through refundable SR&ED ITCs, other businesses − including large and/or publicly traded Canadian companies, Canadian partnerships and profitable CCPCs with large taxable capital employed in Canada − find the credit to be only marginally effective.

This is because the credit can only be used to offset Canadian federal income taxes payable. As a result, during periods of economic downturn, when companies may not have taxable income, they cannot fully benefit from their SR&ED credits, resulting in significant dollars accumulating in carryforward pools, thus diluting the overall level of assistance provided by the SR&ED program and discouraging continued R&D spending.

Without a clear understanding of the specific needs of businesses at various stages of their innovation cycle, a one-size-fits-all approach will inevitably result in misaligned incentives. To this end, a variety of mechanisms could have the potential to provide targeting capabilities within the SR&ED program to enhance the existing broad-based level of R&D support.

<u>Promoting equitable access and utilization of SR&ED credits</u>

For many years, several business organizations across Canada have urged the government to extend the refundability of SR&ED ITCs to all companies engaged in R&D. In several OECD countries,[18] the ITC refundability is a game changer in attracting and retaining large and important investments in their country.

We support equitable access and utilization of SR&ED refundable tax credits. This will make Canada's SR&ED regime competitive with other OECD countries. We recognize that implementing such a change may not achieve cost neutrality; however, we believe it is important to attract large investments in Canada that will create well-paid job and differentiate us in a global market. Consequently, we recommend that the government review the tax credit rate structure of the program and consider the following alternatives:

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[18] France, which offers an R&D tax credit (CIR) equal to 30% of the first EUR 100 million of qualifying R&D expenditures incurred during the tax year, has developed a very different model of refundable tax credit. The CIR is deducted directly from the claimant's corporate tax. If it is more than the tax owing, it will be deducted from the amount of tax payable over the next three years. At the end of the three years, if the CIR is still higher than the tax, <u>the remaining amount will then be paid to the corporation</u>. For more details, see Tout savoir sur le crédit impôt recherche (CIR) | economie.gouv.fr (available only in French). Denmark offers a refundable tax credit for R&D activities where the entity incurring the costs is in a tax loss-making position as a result of the R&D activities.

- The basic 15% non-refundable SR&ED ITC **provides no direct incentive to maintain or expand R&D in Canada for many businesses and is not beneficial for many claimants**. The SR&ED tax incentive program can be made more attractive by making it fully refundable or allowing Canadian businesses to offset the SR&ED ITC against a pre-tax levy, such as employers' Employment Insurance premiums or any other taxes.

- **Make the SR&ED ITC fully refundable for all businesses** by reducing the basic rate of 15% and lowering the enhanced rate of 35%: Such changes ensure continued support as businesses grow, remove limitations on funding sources, provide immediate rather than future benefits, and can potentially be cost-neutral. Some examples:
    - Reduce the basic rate of 15% but make it fully refundable;
    - Reduce the enhanced rate of 35% but increase the SR&ED expenditure limit from $3 million to $5 million (the rate selected should achieve cost neutrality).

- Notwithstanding any changes that would be made to the SR&ED program, **immediately adjust the SR&ED expenditure limit for CCPCs** to meet the current needs of R&D-intensive businesses as indicated in our response to Question #1 above.
    - Consider increasing the current SR&ED annual expenditure limit for CCPCs from $3 million to $5 million to account for inflation and to accommodate Canadian businesses that are scaling up or preparing for growth. This adjustment will provide more financial support to claimants with high potential for economic impact in Canada.
    - Update the calculation of the SR&ED annual expenditure limit: Reconsider the $50 million taxable capital employed in Canada used to determine the annual expenditure limit. This limit has been in place for over 15 years. It needs to reflect the realities faced by businesses today (e.g., the need for significant financing to expand operations). Given the financing required in the current/future economy to develop new products, equipment and processes, the taxable capital employed in Canada limit should be increased from $50 million to at least $75 million.[19]

- **Offset the cost of implementing the above-noted measures by introducing a minimum expenditure exclusion threshold test**: Very small SR&ED claims are time consuming for both the claimant and the tax authorities. Recognizing that very small claims may not bring value into the Canadian economy, Finance should consider introducing a SR&ED expenditure **threshold test**, whereby claimants would be eligible for SR&ED incentives, but only if they exceed the minimum required qualifying SR&ED expenditures for the taxation year. For example, if a claimant has $49,999 in qualifying SR&ED expenditures for the year, it would not be eligible for SR&ED incentives for that year. However, if the claimant makes a claim of $50,000 or more in qualified SR&ED expenditures, it would be fully eligible for SR&ED incentives on the full amount of $50,000. This would encourage SMEs to make additional efforts to invest more in R&D and meet the threshold test.

[19] For example, in the R&D regime of the province of Quebec, the R&D tax credit rate is progressively reduced when the prior year's consolidated assets are between $50 million and $75 million.

<u>Other methods to target the overall level of SR&ED assistance</u>

- **Encourage investment in specific sectors or industries:** Currently, Canada offers only one SR&ED tax credit. The government could consider introducing a super-deduction (through the expenditure pool) or enhanced credits for R&D investment for certain industries or sectors where development costs or other barriers are higher to encourage investment. For example, as noted in our response to Question #1 above, the SR&ED program could provide additional SR&ED incentives for businesses that engage in collaborative R&D projects with universities or research organizations.

- **Introduce a reward for incremental increases in R&D:** Additional R&D investment could be encouraged by providing a mechanism whereby incremental increases in R&D spending (over historical average) are rewarded with enhanced support.

- **Provide an option** for businesses that are currently ineligible for refundable SR&ED ITCs to select either a refundable R&D wage tax credit, similar to the one available in Quebec, or the existing non-refundable SR&ED tax credit: The simplified and refundable tax credit would be based only on a percentage of wages paid to SR&ED personnel that directly undertake SR&ED activities in Canada. This annual election would specifically benefit businesses with substantial R&D workforces in Canada and would contribute to the attraction and retention of skilled employees.

- **Eliminate ITC restrictions for limited partnerships:** Limited partnerships are increasingly used as business vehicles for a variety of commercial reasons. However, limited partners, who may actively contribute to and support the partnership's R&D activities, are unfairly excluded from accessing SR&ED ITCs. In addition, the existing ITC reallocation mechanism, which requires the transfer of SR&ED ITCs from limited partners to general partners, creates unintended tax consequences, and often results in the pooling of ITCs that may never be used. This mechanism not only adds complexity and administrative burdens for businesses but also fails to align with the original intent of the SR&ED program, which is to incentivize and support innovation across all types of businesses. Given the evolving landscape of business structures and the increasing prevalence of genuine operating limited partnerships, it is imperative that the restrictions imposed on limited partners with respect to SR&ED ITCs be reevaluated and updated. This would ensure that all businesses, regardless of their corporate structure, have equal access to the benefits.

5. **How can the SR&ED program effectively ensure the retention of intellectual property (IP) within Canada, particularly to support innovative Canadian businesses to remain Canadian-owned and operated?**

Keeping IP within Canada, particularly to help innovative Canadian businesses remain Canadian-owned and operated, is a laudable goal. In our view, there are some underlying questions to this statement:

- How would this grow our economy, create more innovation and jobs in Canada and build a better future for all Canadians?[20]

- In the current Canadian economic structure, and where the Canadian dollar is not competitive with the US dollar and the Euro, how can we convince Canadian entrepreneurs to keep their IP and not to sell it to foreign entities to monetize it?

The SR&ED program cannot by itself be the sole and ultimate solution to all the ills of the Canadian economy and our historical structural productivity[21] and innovation commercialization problems.

Given the composition of corporate structures of Canadian businesses, many of which are subsidiaries of foreign companies or emerging companies seeking venture capital funding to support their development and investment, we question whether the SR&ED program is truly the ultimate tool to effectively ensure the IP retention in Canada.

Asking the SR&ED program to address multiple issues or objectives of our Canadian economy, including the retention of IP within Canada, could, in our view, result in a shift in focus away from the objectives of this flagship program of the Canadian economy.

In our review of R&D regimes in other OECD countries,[22] the main objectives of their R&D programs are not to retain IP in their country. By adding this requirement, Canada could create a new constraint that will discourage important foreign investment in Canada, and we will miss opportunities to create new well-paying jobs across Canada.

Canada's SR&ED program is structured, by legislation, to facilitate foreign R&D investment in Canada (foreign contractual payments do not impact SR&ED performed in Canada). We believe this is appropriate and aligned with Canadian tax policy. This will bring important R&D investments to Canada and create new, very well-paid jobs in Canada. The Canadian economy and government are and will be benefiting from this.

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[20] We believe that it would be beneficial for all Canadians, through Finance or any other Canadian government organizations, to easily have access to published economic data about how, if we are ensuring the retention of IP within Canada, it would grow or will have an important impact or not on our actual Canadian economy, and how it would create wealth in Canada. Providing access to accurate information would be helpful and beneficial to all Canadians in order to make the right decisions for their future.

[21] See, for example, Desjardins, "La productivité postpandémique au Canada est peut-être pire que ce que l'on pensait, mais rien n'est encore joué," April 1, 2024 . See also Deloitte, Future of Canada Centre, Policy Brief, Innovation at scale: Establishing Canada as a global leader.

[22] Deloitte US, Survey of global investment and innovation incentives, October 2020.

The government should continue to examine this matter and we understand that the current consultation paper by Finance on the creation of a patent box regime is a further step in this examination of IP retention within Canada.

It is also our understanding that IP generation by SMEs is most often enabled through the SR&ED program and their access to the refundable Canadian SR&ED tax credit, which plays a crucial role in this regard. This is key for SMEs. However, the cost for SMEs to patent their innovation is significant. When looking at the cost/benefit of filing a patent application, many SMEs do not feel it is worth it in the absence of a patent box regime or other direct support. Access to a patent box regime and other incentives to directly support the SMEs to file a patent application and to reduce the costs of filing, and subsequently defending a patent, could have a very positive impact.

6. How can the SR&ED program be improved and streamlined to make it easier for entrepreneurs to access support?

Based on our day-to-day discussions with a wide variety of SR&ED claimants across Canada, we recognize that many businesses, both large and small, have expressed concerns about the administration of the SR&ED program, stating that it has become overly complicated and that it no longer provides incentives in a predictable, timely, and cost-effective manner. They also note that the scope of eligible SR&ED activities and related expenditures has been significantly narrowed since 2012.[23]

Changes to the program announced by the Canadian government in its 2012 Budget initially focused on administrative changes to improve accessibility, predictability, and consistency. However, in our view, subsequent updates to the program have shifted its focus towards tax compliance. In 2012, the CRA updated the *Eligibility of Work for SR&ED Investment Tax Credits Policy* to formally include the five-question common law test for determining SR&ED eligibility. This inclusion in the policy raised the bar for demonstrating SR&ED eligibility, resulting in a more rigorous evaluation process and a greater number of claims being rejected. And in 2013, as part of its Economic Action Plan,[24] the government announced an additional $15 million in funding to help the CRA focus more resources on the review of SR&ED claims where the risk of non-compliance was deemed high and SR&ED eligibility unlikely. This shift towards tax compliance has resulted in an increase in detailed audits and a greater emphasis by the CRA on the need for claimants to provide contemporaneous documentation, which ultimately discourages businesses, especially SMEs, from applying. This underutilizes the innovation potential of Canada's SMEs, hindering their productivity and growth. Most importantly, Canada is no longer performing in terms of R&D spending relative to its GDP and is no longer competitive with other OECD countries.[25]

Striking the right balance between compliance and incentivizing R&D is crucial. We urge the government to update the SR&ED program to provide certainty and predictability for businesses to **prevent the outflow of R&D activities to other countries.** By aligning with global standards and drawing inspiration from similar programs, Canada can attract R&D activity, promote economic growth, and ensure the competitiveness of its SR&ED program.

<u>Revisit the SR&ED program's administration and review process</u>

- **Adopt an SR&ED review process, rather than a detailed SR&ED audit**, which is consistent with the objective of the program as being an incentive program: Finance should provide very clear guidance on how the SR&ED program should be administered as an incentive program, rather than as a risk-based program focused on compliance. Over the years, the program's emphasis on compliance and narrowed focus on technical eligibility have discouraged continued R&D spending. By relying on robust SR&ED claims processes implemented by claimants and their preparers, the tax authorities can

[23] Following the publication of the Jenkins Report in October 2011, the Department of Finance Canada announced significant changes to the SR&ED regime in the 2012 Budget, including the elimination of the capital expenditures starting in 2014, a reduction from 100% to 80% starting in 2013 in the eligibility of subcontractor cost, and a gradual reduction from 65% to 55% (from 2012 to 2014) of the rate to calculate the proxy amount used to estimate the overhead expenses.
[24] Canada, Department of Finance, 2013 Budget, Budget Plan, March 21, 2013, chapter 3.4: Investing in World-Class Research and Innovation.
[25] Supra note 3 and 7.

reduce the need for detailed reviews year after year and accelerate the processing of SR&ED claims. Adopting a review process that is consistent with the program's objective, involving fewer and/or faster reviews to reduce uncertainty and encourage businesses to apply and see a benefit, could result in cost savings for the program. Consideration should be given to applying this in lower risk claims to ensure the integrity of the program, while reducing the administrative burden for taxpayers.

- **Improve the SR&ED claim screening and service process:** A major concern is the continuous initiation of new audits without timely completion of ongoing audits, sometimes resulting in a cycle of continuous audits. To address this issue, a more precise time limit must be established for the tax authorities to process SR&ED claims in a timely manner (less than six months). Currently, there is no clearly defined time limit for processing SR&ED claims, except for those accepted as filed (should be processed within 60 calendar days) or with refundable tax credits selected for review (should be completed within 180 days).[26] Finance should establish a clear time limit and accountability for processing all SR&ED claims, regardless of the credit type. If the CRA fails to meet the time limit defined by Finance, taxpayers should have the right to request prioritization or accelerated processing of their claim. They should also have the option to file a complaint with the regional SR&ED Division director or the ombudsman to accelerate the processing of their claim. These measures would provide greater predictability and efficiency in the SR&ED claims process, address concerns, and ensure timely support for claimants.

- **Focus on project-level eligibility:** Finance should provide clear guidance on how to shift the focus of the eligibility assessment from the individual activity level to the project or system level. This would allow for a more mutually comprehensive evaluation of technological advances and uncertainties, while placing greater reliance on the perspective of competent professionals within the claiming businesses.

- **Ensure consistency across offices:** We should address inconsistencies in the acceptance of SR&ED claims between different offices and technology advisors across Canada. The national centre for CRA/SR&ED, SR&ED CRA Managers or national subject matter expert advisors (who should be available to both the claimant and the tax authorities) should have the authority and accountability to ensure consistency in the program across the country. Much has been done by the CRA in recent years to address this issue. In our experience assisting many SR&ED claimants across Canada, inconsistencies remain.

- **Re-establish an Account Executive Program:** A Research and Technology Advisor (RTA) would serve as a resource that a claimant could consult while an SR&ED project is underway. Questions on eligibility and documentation could be addressed on an ongoing basis, rather than when a project is under review. This would reduce the number and frequency of audits as the RTA and claimant would become familiar with the claim generation process.

[26] See the CRA's latest services standards (2018) for processing SR&ED tax credit claims.

- **Expand and streamline the enhanced Pre-Claim Review (ePCR) pilot program:** Claimants can often access funds from financial institutions once there is certainty about the eligibility and benefit of a given SR&ED claim. The ePCR pilot program, initiated a few years ago, could allow the CRA to review a claimant's SR&ED activity on a quarterly basis (or semi-annual) and provide assurance to both the claimant and the financial institution about the benefit that will ultimately be received by the claimant. This allows claimants to obtain short-term financing for their R&D activities based on the certification provided by the CRA. Once the claimant receives the benefit of the SR&ED tax credits, the loan can be repaid. There would be no requirement to review these SR&ED claims as there is a real-time review by the CRA personnel throughout the year. The pilot ePCR program conducted by the CRA a few years ago should be reinstated, streamlined, and adequately resourced to ensure a less burdensome review process and timely support for claimants.

- **Review the appeals process:** If there is a disagreement between the CRA and a claimant regarding the eligibility and amount of an SR&ED claim, the claimant can use the appeals process. In our experience, an inordinate number of cases heard by the Appeals Division is decided in favour of the CRA, making this claim resolution process inefficient. One possible solution is to move the Appeals Division, as it pertains to the assessment of the technical matters of the SR&ED claim and not the interpretation of tax legislation, out of the CRA and into a separate government department. This would ensure the transparency of the process from both an optical and practical perspective. More specifically, leveraging the expertise of other parts of the government on technical matters, similar to how Natural Resources Canada is used to support technical matters in clean technology through the proposed clean investment tax credits and certain capital cost allowance (CCA) classes, could further improve the program.

7. **How can your suggested enhancements be funded by existing support available through the SR&ED program? What potential changes could best focus support to benefit Canada, including by creating economic opportunities for Canadians?**

To fund suggested enhancements to Canada's SR&ED program using existing support available through the program and other overlapping Canadian programs that support R&D activities, and to reduce the cost of administering the SR&ED program, the following potential changes could be considered to focus support and benefit Canada, while creating economic opportunities for Canadians.

In our responses to each question in this consultation, we have provided ideas and suggestions on how the suggested enhancements could be funded through existing support available under the SR&ED program. We invite you to refer to each of these questions. We are also providing additional solutions below.

- **Reallocate funds from other federal programs related to innovation and science and technology advancement** through a broader approach to support the enhanced SR&ED program: We recommend that the government conduct a comprehensive consultation and review of all programs that support R&D activities to identify those that are not delivering satisfactory results. Funds from underperforming programs can then be reallocated to enhance the SR&ED program, which serves as the foundation of federal support for R&D activities in Canada.

- **Implement and rely on SR&ED claim process reviews:** To improve the efficiency of the SR&ED program, we recommend that more SR&ED claim process reviews be conducted. Currently, conducting detailed reviews of SR&ED claims is time consuming for both the CRA and claimants. By shifting the scope of the review towards a claimant's SR&ED process, and potentially limiting this type of review to larger claimants, the CRA can rely on the robust SR&ED processes that claimants and their SR&ED preparers have implemented over the years. This would eliminate the need for detailed annual reviews. As a result, the CRA can achieve cost savings in administering the program, allowing for the reallocation of these savings towards other enhancements within the SR&ED program.

- **Consider resource optimization or streamlining administrative processes:** By streamlining administrative processes and identifying areas where the SR&ED program process could be more efficient, cost savings can be achieved. This could include implementing additional digital solutions, automating processes, and reducing paperwork, which would free up resources that can be directed towards funding program enhancements.

- **Implement accredited SR&ED claim preparers:** Many SR&ED claim preparers across Canada have strong and robust quality and risk management processes in place to prepare SR&ED claims. Finance should explore how to implement a system where some of the administration of the SR&ED program could rely on accredited SR&ED claim preparers. For example, when an SR&ED claim is prepared in collaboration with an accredited SR&ED claim preparer, the SR&ED review would be limited to very specific areas or risks identified (reviewing only the material costs claimed, only the financial side of the claim, only one SR&ED project, etc.). Accredited SR&ED claim preparers would have to demonstrate that they have followed their usual and accredited processes. This new way of administering the SR&ED program could result in cost savings at the CRA that could be redirected to other improvements to the SR&ED program.

- **Collaborate with other funding programs:** To maximize the impact of available resources and avoid duplication of efforts, the SR&ED program should collaborate and coordinate with other government funding programs at various levels (federal, provincial, and regional). By leveraging decisions made by these programs regarding eligible R&D activities and sharing information, the SR&ED program can achieve cost savings and streamline processes. For example, by relying on the eligibility decisions of the IRAP program, the CRA can simplify the review process and realize cost savings. In addition, exploring collaborations with other provincial or regional programs can generate further cost savings and streamline processes. By aligning efforts and leveraging resources, these collaborative efforts can effectively support innovation and economic growth across Canada.