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R&D tax update

Quebec unveils the National Research and Innovation Policy to foster scientific entrepreneurship and promote industrial innovation

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The Government of Quebec unveiled its **National Research and Innovation Policy (PNRI)** on October 16, 2013. The PNRI is one of the initiatives undertaken by the Government to reach the targeted research and development (R&D) investment level (amounting to 3% of GDP), as set out in the Economic Policy made public on October 7, 2013. The PNRI replaces the two previous versions of the Quebec Research and Innovation Strategy (QRIS), which was in effect between 2007 and 2013, although certain QRIS programs will be renewed. The PNRI will be in effect from 2014 to 2019.

The PNRI prioritizes seven strategic areas in which Quebec should take action to support and promote research. These areas include: aerospace, creative industries, bio-food sector, personalized healthcare, biotechnologies, information/communication technologies and renewable energies (including electric transportation technology).

In addition to supporting companies' efforts to develop and market their research through greater use of innovation, the Government is using the PNRI as a framework aimed at boosting synergies between the private and the public sector to help drive Quebec's growth in each of the seven strategic areas.

A. Measures designed to boost synergies

In the Government's view, scientific activity is increasingly defined by open innovation. In addition, certain jurisdictions are putting stakeholder collaboration at the centre of their research and innovation policies/strategies. In the industrial research sector, efforts to move towards an open innovation model have been made in the past few years following the creation of sector-specific industrial research associations and precompetitive research consortiums.

In order to promote cooperation and collaboration between organizations, such as businesses, industry associations or educational institutions, in the research and innovation system, the following four measures have been proposed.

- 1) **Creating the Quebec Innovation Research Network (RRIQ), the Quebec Innovates platform and the Innovation Passport.** The RRIQ will comprise 120 Quebec-supported organizations, including research consortiums, applied research centres and liaison/transfer centres. Companies and universities can join the RRIQ, which aims to improve stakeholder collaboration in the areas of research and innovation. To that end, the RRIQ has been mandated to promote the results of applied research at the international level and to facilitate access to these results by public and private-sector stakeholders, particularly small and medium-sized enterprises (SMEs). Quebec Innovates (QuébecInnove) is intended to be a collaborative digital platform linking all RRIQ members. This platform aims to overcome disciplinary or sector-specific silos by offering interactive and converging spaces. The Innovation Passport will be offered to companies seeking to benefit from RRIQ members' expertise.
- 2) **Supporting interdisciplinary/intersector collaboration and developing creative innovation.** In regards to interdisciplinary/intersector collaboration, the PNRI aims to decompartmentalize research and to foster exchanges between disciplines as division between the major areas of knowledge often hampers research and innovation. For creative innovation, it has been noted that art, design and digital technologies can significantly impact innovation. Thus, the Quebec Research Fund for researchers/creators will be given additional resources. To boost synergies between the creative industries and various research areas, Quebec's Ministry of Higher Education, Research, Science and Technology (MESRST) will finance joint projects undertaken by industry researchers or the academic community, in collaboration with recognized research/creative organizations.
- 3) **Expanding support for sector-specific industrial research associations.** Sector-specific industrial research associations (SSIRAs) are synergy platforms because they focus on collaborative research projects that bring together companies and public research institutions. Nevertheless, it has been noted that their level of collaboration is lacking, most likely because SSIRAs are sometimes associated with precompetitive projects involving a limited number of performers. Under the PNRI, SSIRAs will be expanded so projects closer to the marketing stage could be carried out, thus increasing the number of stakeholders and boosting synergies. New SSIRAs will be created, including one dedicated to electric transportation technology and another to bio-food.
- 4) **Maintaining and expanding support provided to major research platforms.** The support provided to major cooperative platforms, such as Nano Quebec, Calcul Quebec or Genome Quebec, will be maintained and expanded. In regards to Quebec's research centres, the PNRI will help them to structure their services in order to maximize the use of their existing resources. The goal is to increase collaboration between researchers and companies.

B. Measures designed to boost corporate research and innovation

This component of the PNRI can be summarized as reflecting not only the desire to do more research and innovation, but also to do so more effectively by improving processes and practices. As noted, the Government is seeking to boost corporate investments in research and innovation to 3% of GDP, up from the present level of 2.4%. While Quebec is at the top of the list of Canadian provinces at their present level of R&D investment, the Government believes that the investment level is insufficient as other countries are targeting 3% of GDP.

The PNRI reflects the Government's commitment to maintaining previously announced enhancements to certain tax credits, e.g. the increase in the assets used to determine eligibility for higher rates for the R&D salary tax credit and for the design tax credit. It also reiterates the announcement that additional funds will be earmarked for increasing the R&D salary tax credit in the biopharmaceutical sector.

In addition, the measures proposed include the creation of a partnership between the MESRST and the Quebec Department of Finance and the Economy. The First Patent (Premier Brevet) program will be administered by this partnership. This program will offer financial and logistical support to SMEs and start-ups in the technology sector who are less familiar with safeguarding innovation—an essential step in the business development process.

A series of measures varying in scope and content will aim to facilitate the steps needed to carry out a given innovation process, from brainstorming to marketing. For more strategic initiatives, emphasis will be placed on attracting international research centres and providing existing research labs with better equipment. In addition, research networks will be initiated to foster collaboration within “mobilizing” projects.

In financial terms, the investments proposed in the PNRI will amount to nearly \$600 million for 2014-2017 and will exceed \$1 billion for the five-year period ending in 2019.

Conclusion

The PNRI announcement had been expected for some time by industry and the institutions involved. It is important for companies to fully understand the PNRI's initiatives and strategies in order to optimize the impact on their innovation projects and to effectively position them within the PNRI framework.

The Deloitte R&D and Government Incentives team has a long-standing commitment to improving the positioning of Quebec industry in terms of innovation and is available to assist companies undertaking related initiatives. Please do not hesitate to contact the members of the Deloitte team, who will be pleased to review your innovation projects and how to position them within the PNRI.

Albert De Luca, National Leader

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