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R&D Tax Update

Support for business innovation: Recent developments

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Over the last few years, there has been considerable emphasis on innovation and its role in improving productivity in Canada. The government's support of innovation is very important to ensuring that Canada remains a leading global destination for innovative businesses.

Budget 2013 follows the government's plan from budget 2012 to better balance funding for innovation between direct grants and universal tax incentives and to improve the administration of the scientific research and experimental development (SR&ED) tax incentive program.

Direct funding for innovation

The budget announced direct support for innovation in Canada through existing programs. Firstly, to encourage partnerships between industry and research centres, the budget included three funding initiatives:

- \$121 million over two years to the National Research Council (NRC) to help the growth of innovative businesses in Canada;
- \$20 million over three years, delivered through a new pilot program at NRC-Industrial Research Assistance Program (IRAP), to help small and medium-sized businesses commercialize their research by providing credit notes to help pay for research, technology and business development services at universities, colleges and other non-profit research institutions; and
- \$37 million per year, through granting councils, to strengthen research partnerships between post-secondary institutions and industry.

Secondly, specific industries have been targeted for investment:

- \$325 million over eight years will be provided to Sustainable Development Technology Canada to continue support for entrepreneurs in the development and demonstration of new clean technologies;
- \$165 million in 2014-2015 to support genomics research;
- \$141 million over two years to secure the supply of medical isotopes and maintain safe and reliable operations at Atomic Energy of Canada Limited's Chalk River Laboratories;

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- Almost \$1 billion over five years for the Strategic Aerospace and Defence Initiative (SADI). In addition, the government will review the administration and operation of the program to enhance its effectiveness; and
- \$110 million over four years, starting in 2014-2015, and \$55 million per year thereafter to create an Aerospace Technology Demonstration Program to support large-scale technology projects with strong commercialization potential and cross-industry collaboration. This program will be partly funded by SADI.

Finally, \$225 million was allocated to the Canadian Foundation for Innovation (CFI) to enhance the next Leading Edge/New Initiatives Fund competition, to sustain the CFI's operations and to advance research infrastructure priorities. The CFI provides support for the research infrastructure of Canadian post-secondary institutions, research hospitals and other research institutions.

In addition to the funding outlined in the budget, the government has recently announced the following support for innovation:

- On January 23, 2013, a further \$250 million over five years, beginning in 2013, to renew the Automotive Innovation Fund (AIF). The AIF advances repayable funds to automotive companies that are involved in research and development projects to create innovative, greener and more fuel-efficient vehicles; and
- On March 15, 2013, \$90.6 million in support of 120 newly awarded and renewed Canada Research Chairs at post-secondary institutions across Canada.

SR&ED program

The SR&ED program is a critical part of the government's support for business innovation in Canada. In budget 2013, the government announced new funding for the Canada Revenue Agency (CRA) to improve the predictability and enforcement of the SR&ED program as follows:

- \$5 million over two years to allow the CRA to have more direct contact with first-time claimants to help these new claimants better understand the SR&ED program; and
- \$15 million over two years to help the CRA focus more resources on review of SR&ED claims where the risk of non-compliance is perceived to be high and eligibility for the SR&ED program is unlikely.

In addition to the new funding for the CRA, the budget proposes to require more detailed information on SR&ED claim forms about tax preparers and billing arrangements. Following its consultation on contingency fees, the government concluded that such fee arrangements did not diminish the benefits of the SR&ED program to claimants. Nonetheless, claimants will be required to indicate whether contingency fees were used and the amount of fees payable. A penalty of \$1,000 per SR&ED claim form is also introduced for non-compliance in providing the appropriate information.

Deloitte's view

We commend the government for implementing governance rules to ensure the integrity of the SR&ED program. However, we hope that the incentive nature of the program will be maintained, or the program's effectiveness could be adversely affected and Canada's attractiveness could decrease compared to competing countries.

We also welcome the new direct funding for innovation, but we believe that more must be done to encourage businesses to engage in innovation and invest in R&D. Refundable credits to all companies are considered by many countries as a driver of such innovation and R&D investment.

Albert De Luca, National Leader

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