



## Global Investment and Innovation Incentives (**GI<sup>3</sup>**)\*

### Innovation support in 2017 federal budget

March 24, 2017

The federal budget released on March 22, 2017 highlights the government's intention to help Canada realize its full potential as a global leader in innovation. To this end, the government announced its intention to review the programs available to fund innovation and to help deliver simpler, more efficient and more coordinated support to Canadian innovators.

\*Please see the Global Investment & Innovation Incentives website for further information: <https://www2.deloitte.com/us/en/pages/tax/topics/global-investment-and-innovation-incentives.html>

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In addition, the budget proposes more than \$8.2 billion of gross spending over the next five years related to the budget's Innovation and Skills Plan. This ambitious plan focuses on enhancing skills, closing the commercialization gap, simplification of programs and funding for businesses.

### **Enhancing skills**

People are at the core of successful innovative companies and acquiring skilled resources is a challenge recognized by Budget 2017. Generally, the skills-related recommendations centre on training, work-integrated learning, accelerated processing of foreign talent and promotion of science and technology in society. As an example, the government intends to renew and expand federal funding for Mitacs with \$221 million over five years. Mitacs is the not-for-profit organization that builds partnerships between industry and educational institutions and its goal is to provide 10,000 work-integrated learning placements for post-secondary students and graduates.

### **Closing the commercialization gap**

Budget 2017 recommends initiatives which will promote businesses to commercialize their innovation and discoveries in Canada. The budget proposes to implement a new procurement program that will allow the government to act as a first customer to test and validate new products and solutions. Up to \$50 million will be provide to launch Innovation Solutions Canada whose role will be to test and validate early-stage R&D, late stage prototypes and other innovative products and services.

A significant proposal in the budget is the investment of \$950 million over five years to support a small number of business-led superclusters in highly innovative industries such as advanced manufacturing, agri-food, cleantech, digital technology, health/bio-sciences and clean resources in addition to infrastructure and transportation. This investment will be funded with \$800 million from the 2016 budget provisions for innovation networks and clusters and \$150 million from the provisions in the 2016 Fall Economic Statement for public transit and green infrastructure.

Based on best practices from around the world and in Canada, these superclusters will be designed to encourage knowledge sharing, drive business specialization and to help investment attraction of significant innovators from abroad.

### **Simplification of programs**

The budget proposes the creation of Innovation Canada, a new platform led by Innovation, Science and Economic Development Canada, whose role will include the coordination and simplification of the federal support available to Canada's innovators. This was one of the recommendations of the Advisory Council on Economic Growth, recently created by the federal government.

No changes to simplify the innovation programs have been announced in this budget as the government will wait for the recommendations from Innovation Canada. Consequently, a review of the programs will be undertaken shortly,

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including the scientific research and experimental development (SR&ED) program.

### **Funding for businesses**

Innovative start-ups and small businesses must find equity funding in Canada to ensure their growth and job-creation capability. The budget proposes to make available through the Business Development Bank of Canada \$400 million over three years for a new Venture Capital Catalyst Initiative to increase late-stage venture capital availability.

Other budget proposals include:

- \$400 million over five years for the promotion of cleantech technologies demonstration
- \$229 million over four years to Natural Resources Canada and Transport Canada for investing in R&D for clean energy and transportation
- \$207 million over five years for cleantech firms' access to more financing
- \$200 million over four years for cleantech in the natural resources sectors
- \$200 million for the new Strategic Innovation Fund that consolidates a number of programs including the Strategic Aerospace Defence Initiative and the Automotive Innovation Fund. Of this funding, \$100 million is new funding and the other \$100 million will be drawn from the funding announced in the 2016 budget.
- \$125 million for growing Canada's advantage in artificial intelligence

The growth in global competition requires Canadian businesses to continue innovating. Canada is not only recognized for its strong resources sector but also for its research and innovation. The focus of the 2017 budget on innovation sends a strong signal of support to industry and to post-secondary and research institutions. For Canada to benchmark well relative to other countries in respect of the related key performance indicators such as business expenditure on R&D, we continue to urge the government to enhance support of industrial R&D (namely through the SR&ED program) as this will stimulate more business investment in innovation.

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