



## Global investment and innovation incentives tax update

### Ontario's 2018 budget enhances incentives for business

April 12, 2018

In its budget released on March 28, 2018, the Ontario government outlines enhancements to incentives for business to encourage innovation and improve competitiveness. Specifically, the budget proposes to enhance the Ontario research and development tax credit (ORDTC), Ontario innovation tax credit (OITC), Ontario interactive digital media tax Credit (OIDMTC) and to increase investments in various funds.

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## ORDTC

The ORDTC is a 3.5% non-refundable tax credit on eligible research and development (R&D) expenditures. For companies that qualify for the ORDTC, the budget proposes to increase the 3.5% rate to 5.5% on eligible R&D expenditures over \$1 million incurred on or after March 28, 2018. The \$1 million threshold will be prorated for short taxation years and the enhanced tax credit rate will be prorated for taxation years that straddle March 28, 2018.

This enhanced tax credit rate would not be available to businesses where eligible R&D expenditures in the current taxation year are less than 90% of eligible R&D expenditures in the prior taxation year.

## OITC

The OITC is an 8% refundable tax credit for small to medium-sized companies on eligible R&D expenditures. To enhance the OITC, the Ontario budget proposes that if a company qualifies for the OITC and has a ratio of R&D expenditures to gross revenues as outlined in the table below, the OITC rate may increase accordingly.

Ration of R&D to gross revenue	OITC rate
10% or less	8%
Between 10% and 20%	Increase from 8% to 12% on a straight-line basis as ratio of R&D to gross revenue increases from 10% to 20%
20% and above	12%

For the calculation of the ratio, both R&D expenditures and gross revenue must be attributable to Ontario operations and would be aggregated among associated corporations.

The enhanced rates will apply to eligible R&D expenditures incurred on or after March 28, 2018.

## OIDMTC

The OIDMTC is a 35–40% refundable tax credit available to qualifying corporations for expenditures related to the creation of eligible interactive digital media products. The budget proposes to extend the OIDMTC to film and television websites purchased or licensed by a broadcaster and embedded in the broadcaster's website. This will apply to websites that host content related to film, television or internet productions that have not received either a certificate of eligibility or letter of ineligibility before November 1, 2017.

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## **Additional funding**

The government will renew, enhance and extend the Jobs and Prosperity fund with an increase of \$900 million over the next 10 years as follows:

- Investing an additional \$500 million in the New Economy fund over the next 10 years.
- Continuing to invest \$30 million in the Forestry Growth fund over the next three years.
- Continuing to invest \$120 million in the Food and Beverage Growth fund over the next three years.
- Creating a new Venture Technologies fund with an investment of \$85 million over 10 years to help high-potential fast-growing firms with venture capital funding. This new fund will complement the Ontario Scale-up Vouchers program.
- Creating the Transformative Technology Partnerships fund with an investment of \$50 million over the next 10 years to help accelerate the development and commercialization of transformative technologies such as artificial intelligence and 5G wireless communication within the province.
- Investing an additional \$100 million over 10 years in the Eastern Ontario Development fund and Southwestern Ontario Development fund.
- Creating a new Greater Toronto and Hamilton area fund to invest in and support small and medium-sized businesses in the Greater Toronto and Hamilton area with a commitment of \$100 million over the next 10 years.
- Investing an additional \$5 million to the Communities in Transition fund.
- Strengthening the Economic Development in Northern Communities fund with an additional \$85 million over three years.

## **Commercialization of intellectual property**

As a number of countries and provinces have implemented tax incentives for the commercialization of intellectual property, such as the patent box, the Ontario government is exploring the effectiveness and feasibility of tax incentives to commercialize intellectual property in Ontario.

To discuss these incentives in greater detail, please contact your Deloitte tax advisor or any of the individuals listed in this newsletter.

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