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(FORMERLY: INNOVATION IN CANADA: PRESERVE AND STRENGTHEN THE SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT TAX INCENTIVE PROGRAM)

Restoring Canada's Innovation Competitiveness

Issue

In a global economy where technology and innovation are increasingly important, Canada trails most of its peer countries in innovation and research. The Government of Canada needs to act quickly to address this, particularly by restoring faith in and simplifying a tax credit regime that nurtures private sector investment across all industries in R & D and technology.

Background

The World Economic Forum ranks Canada as 22nd in capacity for innovation, 22nd in technological readiness, and 27th in company spending on R&D.⁵⁰ Canada's R&D spending as a percentage of GDP has been declining for over a decade and is now 1.69%, compared to the OECD average of 2.4%. Business spending on R&D is near the bottom of all OECD countries.⁵¹ Canada is the only developed country in the world with an intellectual property deficit – we spend more importing technology from other countries than we earn selling technology abroad. This gap is estimated to cost \$4.5 billion a year.⁵²

Having Canadian businesses that are innovative by developing and applying new technologies is essential for success in a 21st century economy. In 2018 the Canadian Chamber of Commerce published 10 Ways to build a Canada that wins, outlining a 10-part strategy to support business growth and build a winning economy. The report stressed the importance of de-risking the development, adopting, commercialization, and production of new technologies and facilitating access to capital to do so.

A key component to driving innovation in Canada is the Scientific Research and Experimental Development tax credit. Canada Revenue Agency has reported that based on 2011 projections, the total value of federal SR&ED tax credit expenditure is approximately \$3.6 billion.⁵³ The tax credits also stimulate the economy. According to a 2007 Department of Finance study, for every \$1 in SR&ED tax credits given out, the government receives back a benefit of \$1.11.⁵⁴ Finance Canada and the Revenue Canada (1997) found that the federal SR&ED credit generates \$1.38 in incremental R&D spending per dollar of foregone tax revenue, and that private sector R&D spending is 32 per cent higher than it would be in the absence of SR&ED tax incentives.

⁵⁰ KPMG, Canadian Manufacturing Outlook 2014: Leveraging Opportunities, Embracing Growth, 2014.

⁵¹ OECD, Science, Technology and Industry Scoreboard 2015.

⁵² Standing Committee on Industry, Science and Technology, The Canadian Intellectual Property Regime – Dissenting Opinion of the New Democratic Party

⁵³ Government of Canada. (2012). Do Your Research in Canada: It Pays Off! <http://investincanada.gc.ca/eng/publications/rd-tax-credit-fact-sheet.aspx>

⁵⁴ Department of Finance Canada and Revenue Canada. (1997). The Federal System of Income Tax Incentives for Scientific Research and Experimental Development: Evaluation Report. <http://publications.gc.ca/collections/Collection/F32-1-1997E.pdf>

Despite its success, changes were made in 2012 and 2014 that reduced the effectiveness of the SR&ED by reducing eligible expenses and reducing the tax credit from 20% to 15%. Businesses also report that the audit component of the SR&ED program has become onerous and time-consuming, and that the uptake and efficiency of the program are hampered by overly frequent changes. A tax regime, using SR&ED as the backbone, must be sustainable with a simple reporting mechanism and changes that are inline and timely with respect to issues businesses are facing.

The Government of Canada must recognize the essential role fostering innovation has on the current and future economic prosperity of our nation. Tax incentives such as the SR&ED play a critical role in increasing the competitiveness of our businesses in the continually evolving global economy.

The Alberta Chambers of Commerce recommends that the Government of Canada:

1. Maintain the Scientific Research and Experimental Development tax incentive at least at pre-2012 levels, including eligible expenses;
2. Simplify the process of the Innovation Tax Credit (former SR&ED) application, using the following as a base: improving the pre-claim project review service, simplifying the base on which the credits are calculated, and introducing incentives that encourage SME growth – so that Canadian companies of all sizes and across all industries can move forward with confidence to bring their innovations to market; and
3. Create an innovation environment that encourages private sector investment in R&D and technology across all industries focusing on the following factors for success: ease of use for businesses, consultation with the business community to ensure programs are in line with the real time needs of business, achieved and sustainable growth of participating businesses, export readiness and enables operational scale-up.