

"Basically, for every \$1 you invest in R&D for eligible expenses you get a 35% refund. So if you invest \$2 million in R&D, you could get \$700,000 back. In addition to which, of course, your R&D expenses go under your expense line, reducing your taxable earnings. I am not aware of anything comparable in the United States or elsewhere."

Dr. R.D. Samuel Stevens, President, **Solarchem Environmental Systems**

Photo: National Research Council Canada

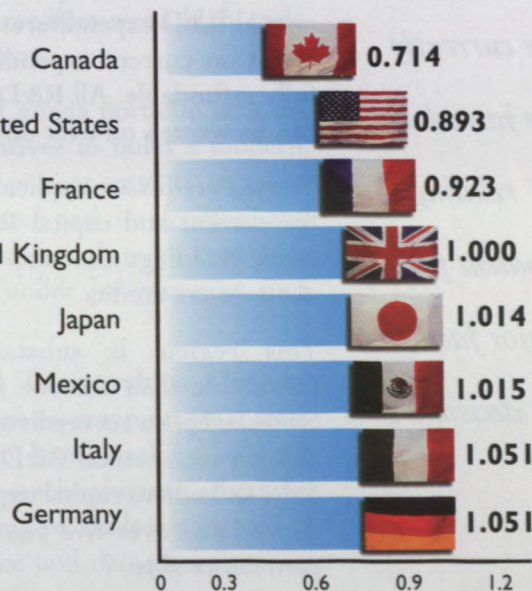
Under the former FST, exports were not directly subject to tax. However, as the FST was imposed on many inputs used in the production process and could not be recovered, it was increasing the cost of Canadian exports. Under the GST, the destination of the goods and services determines the tax liability. Goods and services consumed in Canada are subject to the GST, while goods and services consumed outside Canada are not taxable, enhancing the competitiveness of Canadian-made goods on the international market.

A recent study found that Canada's overall effective corporate tax rates are comparable to those of the United States, and slightly lower when the more favourable treatment of corporate losses is taken into account. Other studies examining taxes on labour, health insurance premiums, and refundable tax credits available for manpower training indicate that the burden of corporate and other taxes and social contributions on businesses is generally lower in Canada.

Most Generous R&D Tax Incentives

A study by the Conference Board of Canada shows that Canada's tax treatment of R&D expenditures is the most favourable among the major industrialized nations studied. Tax relief for R&D spending is provided by both the Federal Government and six provinces.

Tax Burden Index on R&D Investment
G-7* — 1995 - 1996



* Mexico added to G-7 member countries.

Notes: 1) Canadian figures are based on Quebec tax regimes; U.S. figures are based on California tax regime. 2) Figures represent the B index, or ratio of the after-tax cost of \$1 expenditure on R&D divided by 1 less the corporate income tax rate. Generally, the lower the B index, the greater the amount of R&D that a firm will undertake; low = best; high = worst.

Source: Conference Board of Canada, *R&D Tax Incentives in OECD Countries: How Canada Compares*, January 1997.