

WE TAKE CARE OF BUSINESS: HIGH R&D TAX CREDITS MEAN GREATER CASH FLOW FOR INVESTORS

Canada's R&D tax incentives make it an attractive place for investors to undertake their North American R&D activities. For \$50 million in eligible R&D expenditures, large public or foreign-controlled corporations receive a non-refundable tax credit ranging from \$10 million to \$18 million, depending on which province the R&D activity is undertaken in. That is a tax savings of 20% – 36%, which means an injection of non-dilutive capital into an investor's balance sheet.

Not only is Canada a G7 leader when it comes to R&D tax incentives, its R&D tax structure is also one of the most flexible and open. No limitations exist on the sector in which the R&D is undertaken. Unlike many of Canada's OECD and G7 competitors, expenditures such as contracted R&D, capital equipment, overhead, process R&D, salaries and materials are covered. Canada's R&D tax credits do not require expenditures to be incremental. Deferral of claims is without limit. Canada also offers landed-immigrant status to specialists involved in R&D, resulting in faster formation of international R&D teams. Such flexibility is head and shoulders above other tax credit programs available in advanced economies.

to the recent downturn, Canada's \$62-billion stimulus program, *Canada's Economic Action Plan*, includes about \$4 billion for post-secondary education and research, and technology and innovation programs at research facilities in Canada. Some of the new measures announced in Canada's most recent federal budget, in March 2010 include:

- Increased funding for Canada's research granting councils, to enable these councils to sustain their support for advanced research and R&D commercialization opportunities (additional \$32 million per year, starting in 2010-2011);
- Increased funding for Genome Canada, to launch a new research competition focused on forestry and the environment, and to continue funding for Canada's regional genomics innovation centres (\$75 million);

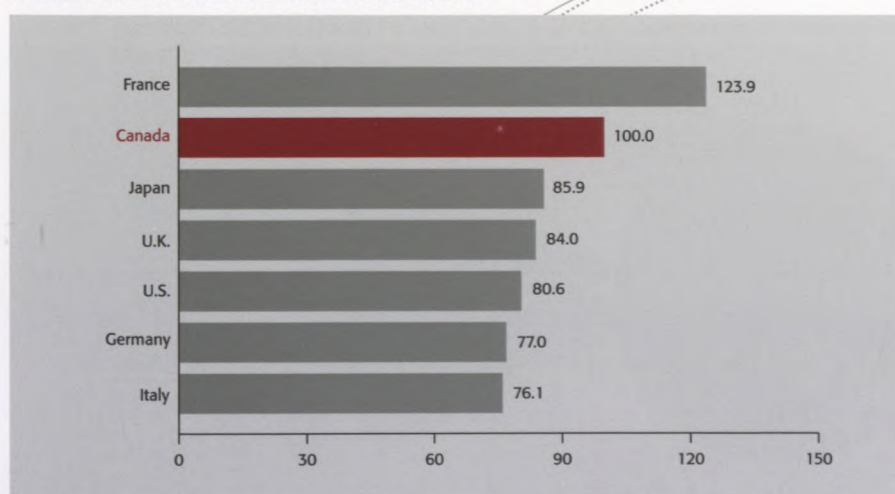
- Extended funding for the International Science and Technology Partnerships Program, to help foster strategic international R&D partnerships (\$8 million over 2 years);
- The new Small and Medium-sized Enterprise (SME) Innovation Commercialization Program—a two-year pilot initiative, through which federal departments and agencies will adopt and demonstrate the use of innovative prototype products and technologies developed by SMEs (\$40 million);
- A new, prestigious Post-Doctorate Fellowships Program to attract top-level talent to Canada (\$45 million over 5 years);
- Changes to Section 116 of Canada's *Income Tax Act* to eliminate the need for tax reporting for many international investments. These changes will improve

the ability of Canadian companies, particularly high-growth technology companies, to attract global venture capital funding; and

- Increased funding for the National Research Council of Canada's Regional Innovation Cluster Program, to foster knowledge-based partnerships among business, academia and other levels of government (\$135 million).

In many instances, these expenditures on R&D benefit foreign investors directly. Research institutions across the country undertake leading-edge industry research in collaboration with foreign investors, who benefit from both the expertise of Canadian researchers and the facilities funded by government programs.

RELATIVE GENEROSITY OF R&D TAX INCENTIVES, 2009



Source: Warda, Jacek, *Rating Measuring Canada's R&D Tax Incentives*. May 2009.

Note: Relative generosity is calculated by dividing the after-tax cost of performing \$1.00 of R&D by 1, less the corporate tax rate. Results are indexed to the relative generosity of Canada's tax-based support for R&D.

¹ Loewendahl, H. *Future Challenges of Investment Promotion*. fDi Intelligence. September 23, 2009. p. 42.

² Conference Board of Canada. <<http://www.conferenceboard.ca/HCP/Details/Innovation/scientific-articles.aspx>>. Downloaded March 25, 2010.