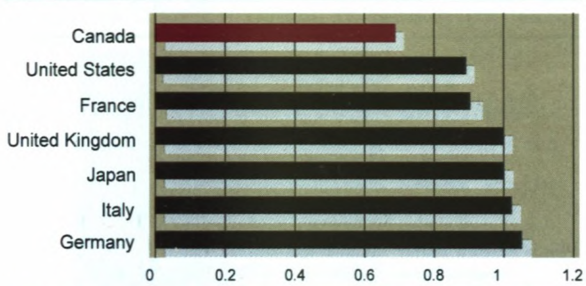
Most Generous R&D Tax Incentives

A study by the Conference Board 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 five provinces.

Large companies qualify for a federal R&D tax credit of 20% on eligible R&D expenditures, which can be used to reduce or eliminate federal tax otherwise payable. Small Canadian-controlled companies qualify for a federal R&D tax credit of 35% on up to $2 million of annual R&D expenditures. The 35% tax credit on current expenditures may be fully refundable.

All R&D expenditures can be written off over one year.

Lowest Tax Burden on R&D Investment
(competitiveness of tax treatment of R&D {B-ratio} - 1993-1994)



***Source**: Conference Board of Canada, International Competitiveness of Canadian R&D Tax Incentives: An update, June 1994.*

Notes: 1) Canadian figure based on Quebec tax regime, U.S. figure based on California tax regime.

2) The B-ratio is the ratio of the present value of the before tax project returns to the present value of the project cost at which a project becomes profitable.

The tax credits are applicable to all eligible current and capital R&D expenditures. Buildings and used equipment do not earn tax credits.

This regime is substantially more favourable than that in the United States, where a tax credit of 20% is available on incremental R&D expenditures only, and where capital expenditures are depreciated over five years and do not earn tax credits.

Patent Protection

Recent changes to the country's Patent Act have also made Canada a more attractive investment destination for innovative companies involved in medical research and development. The amendments, which came into effect in 1993, bring patent protection for drugs and medicines into line with that accorded to new products in all other sectors of the economy. This adds, on average, three years to the effective patent protection of innovative drug products, from 17 to 20 years.

Patent protection in Canada is generally consistent with that provided by other countries under both the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA).