- These tax credits are available on both incremental and non-incremental R&D expenditures as opposed to the United States, where only incremental R&D expenditures qualify.

In addition to the federal tax incentives, five Canadian provinces offer further incentives for R&D investments.

- **Ontario** offers a superallowance to companies based in, and conducting R&D in, that province. This allowance has two components: a base allowance, which is equal to 25 per cent of the qualifying expenditures for large corporations and 35 per cent for small companies; and an incremental component, which is equal to 37.5 per cent for large firms and 52.5 per cent for small firms.

  Effective January 1, 1995, Ontario also provides a 10-per cent refundable innovation tax credit (OITC). This credit is intended to enhance the federal refundable 35 per cent investment tax credit for R&D that is carried out in the province by small and medium-sized businesses.

- **Quebec** offers a fully refundable tax credit of 20 per cent of the wages paid in Quebec for carrying out R&D. For small firms, this credit is increased to 40 per cent.

- **Nova Scotia** offers a 15 per cent refundable tax credit for corporations performing R&D in the province.

- **Manitoba** provides a 15 per cent non-refundable R&D tax credit, which is calculated on the expenditure that is eligible for the federal credit and applies to R&D carried on in the province.

- **New Brunswick** offers a 10 per cent non-refundable tax credit.

It should be noted that these tax incentives are available to any corporations performing R&D in Canada, including Canadian subsidiaries of foreign-based firms. In addition, foreign corporations that contract R&D to a Canadian firm can benefit from the lower costs of performing R&D in Canada. For example, if R&D is contracted to a small Canadian-controlled private corporation that is eligible for a 35-per cent R&D tax credit, the foreign firm could benefit from the reduced cost of performing the R&D in Canada. Joint-venture relationships with Canadian R&D companies can also lead to a substantial increase in R&D performed per dollar spent.

Significant cost savings are available to manufacturers that conduct R&D in Canada. The Canadian subsidiary of a foreign manufacturing company would realize substantial after-tax cost savings by doing identical R&D in Canada rather than in the United States. An October 1995 report prepared for Industry Canada by Deloitte & Touche, entitled *A Comparison of Tax Incentives for Performing Research and Development in Canada and the United States*, concluded that, although Canada and the U.S. have two main tax measures in common that are designed to encourage R&D activities - the R&D expense deduction and the R&D tax credit - their systems differ in three important ways: the timing of claiming the R&D ex-