

Canada as a Competitive Innovation Nation What Needs to be Done: CATAAlliance 2012 Pre-budget Comment

Current public conception

It is commonly considered that Canada has a critical “Innovation Gap” and that other countries are more effectively pouring funds into leveraging innovation to the advantage of their respective economies, through both direct and indirect interventions.

Both the World Economic Forum and the Conference Board of Canada place Canada well down the list in terms of being an “innovation economy”. But is this perception really correct? The Canadian Advanced Technology Alliance (CATA) has recently completed its own review of the issues around innovation in Canada and its commercialization.

Fundamentally, CATA considers innovation to be a “natural resource” that needs to be developed, harvested, used and commercialized for economic and social benefits. The more we process this “raw natural resource” into finished products and services and the more we commercialize them globally, the better will be Canada’s position as a competitive Innovation Nation in the world.

CATA's contribution to the discussion – an additional perspective

CATA, working with 6 other major industry associations, 5 federal agencies, 4 provincial agencies, 2 universities and several NGOs as key partners, has just completed a detailed study of the challenges that must be addressed.

Abstract

The extensive pan-industry study has uncovered significant deficiencies in Canadian industry capabilities for effective commercialization – notably, poor competitive competencies, a weak culture of collaboration and a pervasive lack of funding and smart support for innovation in commercialization. Whereas research accomplishes the transformation of money into knowledge, it is through a process of commercialization that one achieves the transformation of knowledge, as embedded in products, services and market understanding, into money and benefits for individuals, businesses and the society at large.

The study brings proof that Canada is facing a “commercialization gap”, and it shows that Canada’s future economic and social wellbeing in the global knowledge economy requires concerted efforts on the part of industry and government. The study concludes with ideas for redressing the situation by emphasizing innovation in all aspects of the commercialization process from early nurturing of the necessary competencies to

the creation of an effective national framework for commercialization support; from measures to enhance the competitiveness of Canadian small and mid-size enterprises to the development of globally competitive Canadian companies.

CATA's conclusion is that a Canadian “innovation gap” is a misconception. In reality, Canadians have an excellent track record as innovators, but too often our innovations are not matured here in Canada and the major benefits are accrued offshore. What we actually suffer from is an “innovation commercialization gap”.

The CATA study examines why this happens. For a quick summary of the study and its conclusions, please link to the animated presentation at :

[CATA 2011 Study of Effective Commercialization of Innovations.](#)

Recent perspectives and ideas for enhancing Canada’s competitiveness

Currently, there is an overload of ideas, recommendations and often conflicting proposals for consideration as the Government prepares for its 2012 Budget. Specifically, the report of the federal government’s own Expert Panel led by Thomas Jenkins that examined the government’s R&D support for private sector innovation, the study of the Mowat Centre for Policy Innovation, and the recent commentary by the C.D. Howe Institute, have all been released over the last month.

[http://rd-review.ca/eic/site/033.nsf/vwapj/R-D_InnovationCanada_Final-eng.pdf/\\$FILE/R-D_InnovationCanada_Final-eng.pdf](http://rd-review.ca/eic/site/033.nsf/vwapj/R-D_InnovationCanada_Final-eng.pdf/$FILE/R-D_InnovationCanada_Final-eng.pdf)

<http://www.mowatcentre.ca/pdfs/mowatResearch/36.pdf>

http://www.cdhowe.org/pdf/Commentary_334.pdf

The constant is that Canada is recognized for doing the "R" side of Research & Development well, but we are often failing to capitalize on this excellent work and to accrue the rewards to Canada. That is, we are not effectively:

- growing our emerging companies into mature contributors to the Canadian economy;
- commercializing our innovations by bringing them to the marketplace or using them to improve the performance of our businesses that developed them; nor
- retaining the maximum benefits and jobs that proper commercialization of innovation can generate.

The “disconnect” is in how to get there. CATA does not see that any of these reports has the definitive answer, but rather each has its share of good ideas – some of which need to be thought through and addressed quickly, some of which may warrant additional study, and some of which should likely be rejected outright.

CATA assessment

CATA considers that Innovation is a natural resource to be developed, harvested, used and commercialized for economic and social benefits.

The Jenkins Panel promotes a higher proportion of direct funding support for innovation commercialization while retaining traditional tax credit based support for science and

technology R&D efforts, more in keeping with what most other countries do. The Panel believes that this is a major component of what Canada needs in order to redress its sliding competitive position.

The Jenkins Panel specifically proposes that funding for this and other “complementary initiatives” should come from reductions in the funding of the SR&ED Program, albeit the source of the savings within SR&ED is largely unspecified. It is unclear whether or not these savings would actually be significant.

In CATA's opinion, finding efficiencies of even 20% to 30% and moving the monies over to direct support programs and other indirect support mechanisms would be achievable and would constitute a tremendously important change. However, the very limited refinements outlined in the Jenkins report seem very unlikely to achieve these savings.

In contrast to the Jenkins Panel’s approach of increasing direct support for tech start-ups, the C.D. Howe report argues for refinement of the tax system to put more emphasis on rewards to the successful, rather than on encouraging R&D in start-ups. However, this proposal appears to ignore the reality that the “refundable” component of the current SR&ED tax credit system can be and is a vital funding source to many new start-ups as they create and begin developing their first product or service. It would also be inconsistent with the practices of most other modern nations, who already have a much higher proportion of direct financial support for R&D within their private sector firms than Canada and are moving to increase the refundability component of their R&D tax credit system. This, aspect of the C.D. Howe approach, could place Canada even further apart from its main competitor nations in terms of business R&D support policies unless done carefully. Obviously, the key is finding the proper balance.

Indeed, all of CATA's work points to the key problem being how to achieve adequate financial support for small and mid-size technology intensive enterprises to enable them to grow into profitable Canadian successes. In fact, our work suggests that not only is there a funding issue, but that Canada lacks a supportive environment that fosters the commercial success and subsequent growth of our emerging businesses into vibrant and effective, internationally competitive Canadian companies.

In this respect, the Mowat report floats an interesting idea - reduce the federal spend on SR&ED, but put more into supporting regional clusters and transfer part of the funds released from SR&ED to the provinces by way of specific agreements whereby they would use it for direct, instead of tax based, support for the types of innovative companies and product commercialization most suited to their respective regions.

CATA’s suggestions

Are there significant refinements that can be made to SR&ED which do not “throw the baby out with the bath water”? We think so, but we need convincing to believe that simply going to a labour based approach as proposed in the Jenkins report, along with decreasing the refundable portion of the credit over time are all that is needed to free up the monies and make the SR&ED incentives a truly effective instrument. Without new sources of financing, reducing the refundable portion for new technology intensive companies in the current financing environment will be counterproductive, because now

they rely heavily on this aspect of SR&ED to help fund initial product development. On the other hand, moving to labour based claims could be a start to simplifying administration, but we are unsure that much will be gained.

1. ***Eliminate retrospective SR&ED claims and look for a 20% to 30% efficiency gain***

We believe that a much more efficient SR&ED Program should and can be achieved than that envisaged by the Jenkins Panel by eliminating retrospective claims.¹

Almost one-third of the claims received by the CRA in any given year are retrospective claims being filed for previous years. A significant portion of these claims appear to be of a speculative nature and, while providing windfall revenues to businesses and consultants when their claims are successful, they are, at most, of questionable value as incentives for the claimed SR&ED.

In order to introduce more discipline into the SR&ED system, CATA suggests looking at the elimination of retrospective claims. The development and filing of claims should be more closely linked to the SR&ED projects or SR&ED programs. Companies could be required to file an initial submission when their projects or programs are conceived or started (or shortly thereafter) and to submit annual updates with their year end returns.

Besides the elimination of retrospective claims, there would certainly be an efficiency gain for both the government and the businesses because many of the current retrospective claims are of very poor quality. Could this free up, say, 20% to 30% plus of the value of SR&ED tax credits (i.e., roughly \$700 million to \$1 billion or more of the Government SR&ED spend of approximately \$3.3 billion a year ²) without damaging the essential nature and intent of the SR&ED incentives? Given the number of claims currently being filed for previous years, and the time-consuming controversies and complexities associated with the audits of retrospective claims, this is the implication.

CATA would like to see tabled as soon as possible a careful analysis of:

- **the opportunities for refining and better targeting SR&ED beyond the labour based proposals;**
- **what savings can be gained from them to start a process of SR&ED refinement this year; and**
- **what other significant efficiency gains might also be identified to make the SR&ED Program truly effective.**

These efficiency gains in the SR&ED Program could be tied into a common service platform for federal business innovation support programs such as the IRIC proposed by the Jenkins report and redirected to other support programs for innovation. For details, see suggestion # 2 below for discussion of a common service platform.

2. **Implement the Industrial Research and Innovation Council (IRIC) proposed by the Jenkins report**

The Jenkins report proposes creating an Industrial Research and Innovation Council (IRIC) as an “‘arms length’ agency... [to] become the common service platform for all appropriate federal business innovation support programs”, reporting to Parliament through the proposed Minister for Innovation. CATA strongly supports this concept.

This is a sound approach **as long as there is strong authoritative business people involved with its leadership**. The IRIC must be lithe, responsive, and accountable for it to be successful – not just a new bureaucracy, and its accountability should be based on true economic values.

Regardless of whether the proposed council is created, CATA strongly recommends that the Government move to a common service platform for all appropriate federal business innovation support programs, including the SR&ED Program, to rationalize services and thereby reducing government and private sector costs. Eliminating existing overlapping / duplicative / repetitive government administration and private sector user application and reporting requirements should result in significant efficiency gains and savings. Savings should be formally identified and reinvested in efficient and effective support for innovation.

Accountability must be determined on the basis of performance evaluations based on true industry value metrics (e.g., success rates in the number of newly founded technology companies bringing products/services to market; return on investment in 3 to 5 years; expansion into mature entities; growth in the numbers of technology graduates and Highly Qualified Personnel (HQP) employed in Canadian SMEs).

CATA does not believe that the proposed council can succeed unless it has responsibility for the full innovation and commercialization envelope. It must be industry-oriented, agile, and able to respond quickly to global market trends and able to recommend and oversee adjustments in both direct and indirect funding mechanisms.

And, given the importance of the SR&ED tax credit system as noted above, we do not believe it is realistic to think that the proposed council could succeed in meeting its leadership mandate without having responsibility for the success of SR&ED incentives, the largest element of the Government's support for business innovation. Specifically, with respect to SR&ED, at a minimum, the council should have overall responsibility for:

Specifically, with respect to SR&ED, at a minimum, the council should have overall responsibility for:

- in conjunction with the Department of Finance Canada, maximizing the effectiveness of the SR&ED incentives, as well as the effectiveness of other indirect mechanisms;
- evaluating the results and making appropriate changes to see that the SR&ED credits deliver the intended economic benefits cost effectively; and

- determining what is eligible SR&ED and what is included in the work elements.

3. **Address SR&ED administration issues, simplifying SR&ED**

We agree with the Jenkins report that simplifying the SR&ED Program and lowering the related overheads incurred by the Government and users of these credits is a must. However, simply moving to a labour based approach to the tax credits cannot be effective unless the issues related to:

- the determination of what is SR&ED; and
- what is eligible work associated with the SR&ED

are quickly addressed. (See CATA's August 2011 SR&ED Update for details: http://www.cata.ca/Media_and_Events/Press_Releases/cata_pr08101102.html.)

CATA believes that the CRA's de facto re-orientation of Canada's largest program of support for innovation needs to be corrected immediately so that the full spectrum of technological based advancements is supported and that SR&ED can be effectively claimed when it is conducted in conjunction with the highly integrated commercially-oriented development efforts that Canadian companies need to apply in order to be competitive and efficient, and respond to world markets.³

4. **Rebalancing Canada's indirect support**

CATA found support for its views in the arguments presented in the Mowat Centre study and C.D. Howe commentary about the importance of rebalancing the indirect tax based mechanism to better achieve successful commercialization in Canada. Further, these reports imply that there needs to be a much closer look at how indirect support can be more effective than has yet occurred and how the monies can be better spent. Both reports challenge the status quo of the SR&ED Program and imply that improvements can be made. The Jenkins report notes that in 2007 there was an internal cost-benefit analysis of the SR&ED program carried out. However, it has been many years since there was a full review of the SR&ED Program, which is clearly required at this point.

Given that the Jenkins Panel's prescriptions in this area were very broad, we strongly encourage the Government to work with independent leading tax experts and table a commitment with the 2012 Budget on how to most effectively shape our indirect support to business, including steps to provide a better balance between direct and indirect support. The target should be to provide environments that foster successful Canadian commercialization efforts and the retention of the results within Canada, adequately supporting innovative SMEs.

We again suggest that the target should be a 20% to 30% efficiency gain in SR&ED, as described in suggestion # 1 above, and the more effective redistribution of these monies.

In respect to indirect support and its redistribution, CATA finds the concept of a "Patent Box"⁴ to be very appealing. This approach received no attention in the

Jenkins Panel's report.

CATA recommends that the Government look closely not only at this concept, but also at the possibility of extending this approach to a “Commercialization Box” and that consideration be given to providing a commercialization tax credit for activities carried out in the box.

5. **Enhance IRAP, as recommended by the Jenkins report**

The Industrial Research Assistance Program (IRAP) is one of the most industry-valued federal programs. CATA strongly endorses the Jenkins Panel's recommendation that IRAP could be enhanced to support a greater spectrum of innovation and commercialization activities. The IRAP Program should be adjusted to catalyze competitiveness through strategic “smart support” for enhanced business collaboration through partnerships and alliances complementing the native strengths of typical Canadian SME enterprises. The key should be responsiveness and flexibility with a focus on demonstrable, successful leveraging of technology. Accountability should be judged on tangible industrial measures like start-up tech company survival rates after three and five years, number of new products and services brought to market annually by companies that IRAP supported, and overall ROI after three or five years.

6. **Create the “Commercialization Research and Preparedness Assistance (CRPA)” Program**

CATA further recommends that consideration be given to creating a complementary program to IRAP to specifically promote commercialization efforts.

A company's success in the marketplace is predicated both on having a product ready and acceptable to the market and on being fully prepared for its commercialization efforts in the market. Traditionally, most attention in Canadian government support has been given to technology and product readiness, with scant attention being paid to the fact that without proper commercialization strengths a large number of Canadian start-ups have died or have been acquired for a pittance by foreign businesses which then proceeded to harvest the economic benefits for the innovations initially developed by Canadian companies.

Focused on what is normally termed the “pre-commercial” phase, before a new product is broadly available on the market, the “Commercialization Research and Preparedness Assistance (CRPA) Program would provide support to companies for innovation in commercialization and market preparedness measures to achieve higher levels of business success. Whereas the existing Industrial Research Assistance program (IRAP) would be focused on helping companies achieve a higher level of technology and management readiness, the CRPA Program would help them achieve commercial readiness for actual business success. In this way, the focus of IRAP would not be diluted.

7. **Government Procurement of Canadian Innovations – make CICP permanent and enhanced**

CATA strongly supports the Jenkins Panel's recommendation on making the

Canadian Innovation Commercialization Program (CICP) a permanent one and having it enhanced manifold to reap the potentially immense benefits of such a program.

The CICP program should be focused on enhancing Canadian industry competitiveness through more extensive federal government purchases of Canadian innovations and the directed provision of lead customer support and commercial references to innovative Canadian companies. However, unlike the present “pilot” program which invites all companies with any new pre-commercial product to apply for its innovation to be trialled within government, the CICP should catalyze Canadian competitiveness through “smart assistance” by focusing on addressing the identified future needs of government agencies and departments through closer collaboration with federal agencies and industry associations.

Accountability should be measured on the basis of tangible industrial values, e.g., business viability 3 years after CICP purchase, along with demonstrated success in meeting client (government agency) needs.

8. **Risk capital – create an effective financing ecosystem supporting the full spectrum of growth in Canada**

CATA is pleased that the Jenkins Panel has recognized the seriousness of this problem. Essentially, the “financing ecosystem” needed for the development and survival of technology firms in Canada is broken, and urgent action is required. The Jenkins Panel’s report offers two possible approaches. We believe there are other opportunities as well to address this challenge.

- **In the early stages**, one of the most serious problems currently facing Canada’s young technology firms is finding the money needed to develop their product or service and then funding the essential marketing and sales organization (channel to market) needed in order for the company to become successful. Canada's financing ecosystem should start at the same place that every new company begins, by providing funds to pay for the development of innovative new products and services. Unlike a retail store or perhaps transportation company, a tech company must first invest significant sums in developing its ideas into commercial products or services while receiving no sales revenues whatsoever.

For young Canadian technology companies, the monies they are able to claim from the SR&ED tax credits are usually “refundable”. This is the practice in other countries.

However, in competitor nations such as the United States and Britain, Angel investors or investor networks are more widespread and more experienced than in Canada. They play a major role in starting up new technology firms and getting them to early sales, providing not only cash but expertise and oversight. CATA believes that Canada needs to stimulate this type of activity in Canada to ensure that more entrepreneurs are able to develop their innovative ideas into actual products or services and to begin to commercialize them.

Fortunately, there is already a proven model in operation in British Columbia to help draw out private Angel investors and other private money to help finance young start-ups. A similar model to this B.C. Venture Investment Tax Credit system has now been adopted in New Brunswick. The Ontario government is expected to be next to introduce such as system. Quebec has programs with somewhat similar objectives, but different modalities.

CATA suggests the federal government should support this model and match such provincial investments 50/50 as many more innovative new companies would be started.

- **As companies mature**, it takes more money than small local investors, business Angels, or the SR&ED incentives are able to provide in order to get companies to the next stage – successful commercialization and scaling up to become profitable in today’s competitive global marketplace. Outside investors are an essential element of the “financing ecosystem” for technology companies if they are to grow, no matter what industry sector they’re part of, as the Jenkins Panel has pointed out.

Venture investments in Canada have fallen over 70% in the past 10 years, and are less than half the rate of the U.S. (as a percentage of GDP). Moreover, Canadian firms that do succeed in finding outside investors are now raising about 40% of what their U.S. competitor counterparts are able to raise. And, new money coming into funds that make such investments is continuing to fall. 2010 was the worst year for new venture fund raising in 15 years ⁵. The Jenkins Panel recommends that the federal government facilitate increased venture funding activity by having BDC invest both alongside Angel stage funds (called a “sidecar fund”), as well as partnering with later stage professionally managed venture funds which select and place funding into the best young Canadian tech companies.

However, CATA believes that in the case of later stage funding for commercialization and scaling up, the Jenkins Panel has missed the opportunity to ensure such government investment is not only successful, but at low risk and low overall cost to the Crown.

In order to stimulate the creation of a series of Canadian venture investment funds, at little cost to government, CATA proposes that the federal government borrow a page from the Israeli play book, with the structure proposed by VC expert Stephen Hurwitz⁶.

With the added funding the Jenkins Panel proposes allocating, BDC could offer to put up the first 40% for a series of new funds that would be created and managed by experienced Canadian managers, who would be required to attract the other 60%, and experienced “General Partner” investors from global sources. (Ideally, each fund would total about \$200 million and specialize in a particular industry sector.)

Then, in addition to the attraction of an initial BDC investment to kick start the creation of these new venture capital funds, the other investors

could be given the right in each case to buy out the BDC share within six years for the amount invested by the Crown plus interest. This way of enhancing the returns for private investors means that BDC would see its government-provided initial investment fully returned in each case that these professionally managed venture funds were even marginally successful.

Through this combination of:

- encouraging private investors and experienced Angel investors to put their money and talent into the early start-up phase for such companies, and
- creating new VC Funds to provide for the more costly later stage investments tech companies require to reach global stature and profitability, Canadian firms will once again have a reasonable prospect of success.

The result would be a much more complete, and CATA believes, effective and competitive financing ecosystem.

2. Create vibrant, collaborative, synergistic environments for growth

The CATA study on Commercialization of Innovations highlights the fact that Canada suffers from a weak culture of collaboration. Resolving this is of paramount importance, especially for small- and mid-size enterprises which cannot afford to hire all the industrial and technical expertise, the managerial, operational and marketing skills, and the market connections to customers necessary for competitiveness in the global market.

In today's globalized, competitive marketplace, Canadian firms must collaborate with effective partners to survive and become viable businesses with chances of winning leading positions in the market. Canadian companies must think global while acting locally in approaching specific geographic and political territories with the appropriate partners for local success. The Government needs to encourage not only the usual technical collaboration but also the market-oriented collaboration through a variety of direct and indirect means. Supporting industry "clusters" that work together and with the NRC institutes to share technical experience and tools is certainly a positive step, but not sufficient for achieving the necessary levels of market penetration.

CATA believes that market-oriented collaborations models should be evaluated and measures should be taken to incent more companies in Canada to act as anchor companies and to encourage more SME companies to cluster around large anchor ones with good reach into the global markets.

Small- and medium-sized enterprises with less than 500 employees, with the majority of them being below 50 employees, make up 99.8% of total Canadian firms. Small companies cannot afford to hire the industry expertise, the management, operational, marketing skills and the market channels to the right customers, which are all necessary for competing successfully in today's globalized marketplace. To compete and survive, small companies need to collaborate among themselves, as well as with large anchor companies that have

built-in channels to the market. Canada does not have a culture of collaboration. In effect, we found 53% of Canadian companies are trying to compete by themselves, without any collaboration agreements. Canada does not have the culture of anchor companies that has been so effective in driving some Asian countries to speedy industrial development and global market leaderships.

The Government must encourage collaboration among Canadian industry companies on a much larger scale than at present, where most of the incentives were focused on collaboration between Government labs and industry and on ways to get more academic institutions to license their inventions to industry.

Historically, certain industry sectors have benefited from concerted efforts at cluster development though indirect incentives and in some cases direct, e.g., the aerospace, the automotive and the petroleum products sectors. More is needed to raise the commercialization effectiveness of the other sectors of Canadian industry. Incentives should be provided to large companies – Canadian or otherwise – to act as anchor companies for Canadian SMEs, and more Canadian SMEs should be encouraged to collaborate and cluster around anchor companies with good reach into global markets. Likewise, Canadian SMEs should be encouraged and supported in taking advantage of existing channels to market through Canadian anchor companies.

CATA proposes that an expert industry-government panel be created to research and propose the most appropriate direct and indirect incentives for enhancing effective collaborations among Canadian companies to promote commercialization results and speedier industrial developments.

3. Better leveraging of Canada's academic and research institutions to promote economic growth

While Canada has emphasized unbridled academic research, some other countries have adopted more “applied” research programs in direct support of strategic industrial initiatives. This different focus has been associated with significant success in economic and social terms, and contributed to these countries' advancement in their global level of competitiveness.

CATA is a strong supporter of continued Canadian efforts in research, provided a greater portion of academic research is contingent on linkages with industrial objectives where the pull of the business community is significantly manifested.

In this respect, the approach proposed by the Jenkins Panel of separating from the National Research Council a number of its existing technology institutes into a constellation of large-scale, sectoral, collaborative R&D centres involving business, the university sector and the provinces is an important proposal. Done right, this refocusing could greatly assist in achieving a closer linkage and synergism of research with industrial needs. This refocusing would require careful study and implementation to ensure the valuable contributions of the existing institutes that may not be consistent with a more commercially focused approach are protected and transferred to other institutions.

CATA believes that beyond the question of the future of the NRC and its institutes, the research funding agencies (NSERC, SSHRC and CHIR) should focus a greater percentage of their activities on supporting research leading to tangible industrial synergisms and successes within a horizon of 4 to 8 years. We believe that SSHRC specifically should undertake a more direct role in enabling research leading to innovation in commercialization processes while NSERC and CHIR should focus even more on applied innovation in Science, Engineering and Medicine.

4. Educate for business success

Of utmost importance must be the drive towards a better education for business success in Canada. Business management, including marketing, project management and customer relations should be made a compulsory subject for all Science and Technology students, and be made available as an option to all other students in Canadian universities and colleges. Studnets should be enabled and encouraged to gather industry understanding and gain work experience.

In general, the Canadian education system must be adjusted to nurture economic value-creation competencies (business, marketing, sales and relationships) from early years in school and throughout university studies, and thus build confidence, a spirit of leadership, and competitiveness in the future generation of Canadians.

A final comment

Given the considerable number of background studies and the solid work of various groups such as the Jenkins Panel, the Mowat Centre for Policy Innovation, and the C.D. Howe Institute, CATA argues that it is time the Government considers and tables an action plan and commits to milestone deliverables in the 2012 Budget to foster an effective environment for successful commercialization of Canadian innovations.

We fully recognize that ‘the devil is in the details’. We understand that the challenges to making changes to SR&ED and NRC are considerable and that care will need to be taken not to disrupt what is working well in these highly complex subjects.

CATA believes that the time has clearly come to draw up and commit to an overall action plan addressing the major challenges facing Canada’s business communities. We must treat Innovation as a critical natural resource which needs to be developed, harvested, used and commercialized in the best ways possible for maximizing its economic and social benefits.

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¹ Under the legislation, a business has 18 months after its year end to submit a claim for SR&ED incentives. This means that SR&ED can be claimed for projects in progress 2 ½ years prior to the date the claim is filed (18 months + tax year of 12 months). And, these projects may have been started well before this. Retrospective claims likely relate to projects started at a time when businesses were not aware of their potential for SR&ED incentives. Otherwise, those businesses would have filed claims on a more timely basis. In these cases, SR&ED funding represents a windfall after the fact rather than an incentive to undertake R&D in the first place.

² Innovation Canada: A Call to Action, Review of Federal Support to Research and Development – Expert Panel, section 6, “Overview of the SR&ED Program”, October 17, 2011. “In 2007 — the most recent year for which such data are available — some 20 000 small businesses that were CCPCs received about \$1.3 billion in SR&ED tax credits (Figure 6.3). (By way of contrast, 1082 SMEs received a total of \$69.1 million in funding from IRAP in 2007.) About 3900 other firms earned roughly \$2.0 billion in SR&ED tax credits in 2007”. http://rd-review.ca/eic/site/033.nsf/eng/00296.html#p_6.2

³ CATA notes that the Jenkins Expert Panel's EKOS study of SR&ED users emphasizes experiences associated with the 2007 and 2008 claims. The results of this study cannot reflect the extent of the problems that are now taking place in dealing with the CRA's administration of SR&ED. Increasingly, our members are telling us that a very narrow research-oriented concept of what should be supported and how it should be conducted is being applied by CRA reviewers assessing current claims. This was not so much the case in 2007 and 2008, the focus of EKOS. The Governments that created the legislation intended to support much more than this highly restricted concept currently being applied by the CRA and is a marked deviation from the earlier agreements between industry and Revenue Canada that were the basis for both the submission and administration of SR&ED claims for many years.

⁴ Robert D. Atkinson and Scott M. Andes, The Information Technology & Innovation Foundation (ITIF), Patent Boxes: Innovation in Tax Policy and Tax Policy for Innovation, October 4, 2011. <http://www.itif.org/publications/patent-boxes-innovation-tax-policy-and-tax-policy-innovation>

Jim Shanahan, Is it time for your country to consider the “patent box”? PwC, Dublin, Ireland, May 23, 2011. http://download.pwc.com/ie/pubs/2011_is_it_time_for_your_country_to_consider_the_patent_box.pdf

⁵ All data from recent (2011) report of the Canadian Venture Capital Association.

⁶ Stephen Hurwitz – Choate, Hall & Stewart LLP (2011); Beyond R&D – *Canada's Commercialization Challenge and How to Meet It*. <http://www.choate.com/media/pnc/0/media.3040.pdf>

