

New Government Funding for Technology Business

- Offers loans for R&D, technology demonstration and commercialization
- Eligible expenditures include wages, land, buildings, and equipment

The Strategic Innovation Fund (SIF) first announced in the Canadian 2017 federal budget, is now open and accepting applications. While SIF is certainly a technology focused program, it has broader "economic development" objectives beyond R&D including job creation / retention, skills development, and generally increasing the productive capacity of Canadian industry. SIF funding is provided for specific defined projects on a cost-share basis. Since it is a federal government program, it is available throughout Canada.

The primary attraction of SIF is as an alternative to commercial banks as a source of "patient" non-asset based loans for companies seeking to either commercialize or implement novel, potentially "disruptive" technologies in their products or processes. Such companies may look to SIF for more funding than would likely be available to them via an operating line of credit sourced from conventional lenders.

Some may view SIF as a modified resurrection of the Technology Partnerships Canada program (TPC) which was active from 1996 until 2003, during which time it delivered some \$3.8 billion in funding, primarily to the defense and aerospace sectors (see items 1 and 2 under [Learn More](#) below for a description of how TPC worked).

When it was initially announced, the SIF program had a total budget \$1.26 billion to be disbursed over five years and was available only to companies in the automotive and aerospace sectors. However, SIF has recently been opened to private and public companies of all sizes in all sectors of industry, perhaps with some emphasis on clean technology, information and communications technology, and agri-food. To support this expanded scope Ottawa has increased the SIF budget by some \$200 million.

SIF is an example of so-called "direct funding" which Ottawa has advocated as a potential supplement (or replacement) for indirect funding through tax credits such as SR&ED. Based on the information thus far available, it seems SIF will be administered much like existing federal programs such as Sustainable Technology Development Canada (SDTC), the Atlantic Canada Opportunities Agency (ACOA) and the Industrial Research Assistance Program (IRAP).

Terms and Contribution Levels

It is not clear exactly what types of funding will be on offer from SIF: Paragraph 1 on Page 9 of the SIF program guide says that funds will either 1) conditionally or unconditionally repayable; 2) non-repayable; or 3) a combination of 1 and 2.

What is clear is that SIF funding will be awarded on a "competitive" basis for specific defined projects that meet government economic development goals which are broadly focussed on innovation, productivity and development of the "knowledge economy".

We expect the most likely SIF funding scenario to be some form of long term loans covering up to 50% of the eligible project costs at interest rates in the range of 2% to 5%.

Eligible Costs and Activities

Eligible project costs are salaries, contractors, consultants, materials, overhead, and other direct costs. Other direct costs can include equipment, land, and buildings, which have long been excluded from SR&ED.

At this point SIF has a fairly broad mandate in terms of what it will fund. The guiding principles seem to be:

- Commercializing R&D results - i.e. moving technology out of the lab and into the marketplace
- Demonstrating / benchmarking the capability of a new product emerging from the company's R&D process
- Implementing new technologies that will give a Canadian company a "competitive edge"
- Reducing the environmental impact of industrial processes
- Increasing production efficiency and capacity
- Incenting the establishment of a new facility or operation in Canada
- Enabling a Canadian company to win a global mandate to manufacture a product in Canada

Restrictions and Caveats

It is important to note that loans received from SIF will almost certainly act to reduce SR&ED (Scientific Research and Experimental Development) Tax Credits (see item 3 under [Learn More](#) below). That said, the fact that SIF will cover certain expenditures that are non-SR&ED eligible - notably equipment, land, and buildings - suggest a useful synergy between these two different forms of funding.

However, potential synergies between tax credits and SIF are constrained by so called "anti-stacking" rules which limit the total amount of assistance available from all governments (federal, provincial, territorial, and municipal) to not more than 75%.

SIF loans will likely include certain "social good" clauses such as job creation, job retention, location of facilities, etc. not likely to be seen in standard commercial loans.

Unlike SR&ED, applications for SIF must be submitted in advance, before work on the project starts, and the applicant must demonstrate itself financially capable of funding its portion of the proposed project budget. Companies seeking SIF loans need not be large, but they will need to be financially sound with a solid practical business plan.

Perhaps the biggest drawback of SIF is that there is no statutory appeal process to dispute a denied SIF application; the agencies administrative decision is final and accountable only to its own operational criteria. The only possible avenue of appeal would be an application to the Federal Court for judicial review, which would most likely turn on whether or not the applicant was given "fair" access to the process, rather than the validity of the funding decision.

Finally, the legislation by which SIF was created prohibits payment of a "success fee" to any person in connection with the preparation of a SIF application. Any person lobbying members of government (including elected officials, their staff, and senators) in an attempt to influence the SIF outcomes, must be

registered with the Office of the Commissioner of Lobbying of Canada (see item 5 under [Learn More](#) for details).

The Application Process

Applying for SIF funding is a two-step process:

Step 1 is a "Statement of Interest" and is a basic outline of the project (or projects) you feel fit the SIF criteria. This involves a summary of the project goals, benefits and a basic budget. If SIF judges the Statement of Interest to be aligned with its mandate, the applicant is invited to proceed to Step 2.

Step 2 is a "Full Application" which is a much more in depth work up of the project including justifications in support of the SIF program objectives pertaining to innovation, technological advancement, macro-economic benefits, job creation, environmental impact, and overall benefit to the Canadian economy. Based on past experience with similar programs, the Full Application is a complex document requiring comprehensive qualitative and quantitative analysis of the proposed project.

Once Step 1 and 2 are complete an extensive due diligence review of the proposal is conducted by SIF personnel with professional expertise in the field of the proposed project.

If the application is accepted an SIF Contribution Agreement (contract) is drawn up to be executed by the Canadian Federal Government (i.e. PWGSC) and the applicant company. Once work starts on the project the applicant company submits periodic claims (e.g. quarterly) in respect of the expenses paid out on the project and receives cheques for whatever portion of those expenditures were agreed upon in the Contribution Agreement.

At present, cycle times seem to be in the range of 8 to 12 weeks for a decision on the Statement of Interest and 6 to 9 months for a decision on the Full Application and the execution of the Contribution Agreement.

Scitax Can Help

We encourage any company that is now filing claims for SR&ED tax credits or that has done so in past to file a statement of interest for SIF funding.

Properly addressing the submission requirements in a timely fashion is vital to succeeding in this highly competitive program. Scitax has significant legacy experience assisting technology sector companies in obtaining funding from government programs including IRAP, SDTC and TPC; we're ready when you are.

Learn More

1. Conference Paper: *Technology Partnerships Canada Bridges the Venture Capital Gap in Canadian High-Tech*, D. Hearn, Federated Press April 2000. (describes an example "direct funding" program and the 1998 WTO action between Bombardier and Embrear)
<http://www.scitax.com/pdf/2000.TECHNOLOGY.PARTNERSHIPS.CANADA.FP.D.Hearn.2000.pdf>
2. List of funded projects, repayment data, and other summary statistics for Technology Partnerships Canada (1996 -2003)
<https://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/00935.html>
3. SIF loans likely to reduce SR&ED
<http://www.scitax.com/pdf/Bulletin.59.Supreme.Court.Declines.Immunovaccine.SRED.Case.27-Mar-2015.pdf>

4. SIF Home page

<https://www.canada.ca/en/innovation-science-economic-development/programs/strategic-innovation-fund/innovation-funding.html>

5. Lobbying Act

https://lobbycanada.gc.ca/eic/site/012.nsf/eng/h_00008.html

About Scitax

Scitax Advisory Partners LP is a Canadian professional services firm with specialist expertise in all aspects of planning, preparing and defending Scientific Research and Experimental Development (SR&ED) tax credit claims.

We offer a multi-discipline team of engineers, chartered accountants and tax lawyers to ensure that your SR&ED issues are covered from every angle.

While we normally work in concert with our client's existing accountants, our affiliated tax-dedicated chartered accounting firm - Cadesky Tax - is an expert resource for advice on any taxation matter such as may arise either during the planning and preparation of your claim or while dealing with CRA afterwards.

In addition to planning and preparing new claims, we also engage on claims that have been challenged by CRA auditors or that have received negative assessments for either scientific or expenditure eligibility. If a satisfactory settlement cannot be achieved with CRA at the local office level, we will appeal your assessment through either Notice of Objection or Tax Court of Canada procedures with the assistance of our affiliated firm of tax lawyers.



Celebrating ten years



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