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U of T Study Preempts Jenkins: Calls for SR&ED Cuts

The Mowat Institute at the University of Toronto's School of Public Policy has issued a new economic policy report entitled *Canada's Innovation Underperformance: Whose Policy Problem Is It?* authored by Tijs Creutzberg.

Creutzberg – a public policy consultant – holds a PhD in Political Science from the University of Toronto, an MSc in Technical Change and Industrial Strategy from the University of Manchester, and a BAsC in Mechanical Engineering from the University of Waterloo.

This report calls for Canada to abandon its traditional reliance on tax credits as the primary innovation funding mechanism and instead switch to so-called "direct funding", i.e. grants, loans etc. which require pre-approval. Canada has used such mechanisms in the past (Technology Partnerships Canada being a case in point) and presently has IRAP and SDTC which operate in this way.

How significant is this report and what does it mean? Two possibilities: It could mean Tom Jenkins, R&D Expert Review Panel scheduled to report next week, wants to pre-build support to justify what could be a very unpopular decision on cutbacks or outright cancellation of the existing SR&ED program. Alternatively perhaps one of stakeholders involved in that panel didn't get their way and has decided to pitch their toys out of the pram in frustration.

In an initial reading of this report, we noted two concerns:

First, the statement "*All the more remarkable is that, in its current form, the SR&ED is the second most generous R&D tax incentive among OECD countries, after Spain (Warda 2005).*", is based on information that is badly out of date and almost certainly wrong. By ignoring the different benefit rates accorded to large public companies vs SMEs and the different provincial rates within Canada, it oversimplifies the situation. Furthermore by citing Warda's 2005 data it neglects recent improvements by France, Australia and the UK – not to mention several individual US states.

Second, it makes no mention of how international trade agreements – specifically the *World Trade Organization Agreement on Subsidies and Countervailing Measures* – constrain direct subsidies to business. Article 8.2 (*Identification of Non-Actionable Subsidies*) may provide enough wiggle room, if export markets are not a factor in the awarding of the funding. However, Article 3 (*Prohibited Subsidies of Subsidy Countermeasure Act*) has already been applied against Canada's Bombardier by Embraer of Brazil in a 1998 WTO action over funding Bombardier received from the former Technology Partnerships Canada (TPC) program. This is a significant issue because Canada does not have sufficient domestic market to support technology commercialization, and any government assistance program that does not require the applicant to be export capable would certainly be a folly.

It will be interesting to see if the Canadian Government's Review of Federal Support to R&D panel comes to the same conclusions when it releases its report in Toronto next Tuesday.

Scitax will of course produce a bulletin with full analysis of the Jenkin's report.

LEARN MORE

The Mowat report

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

Globe and Mail article describing the Mowat report

<http://www.theglobeandmail.com/report-on-business/economy/study-urges-drastic-cuts-to-federal-rd-tax-breaks/article2200463/>

World Trade Organization Agreement on Subsidies and Countervailing Measures

http://www.wto.org/english/docs_e/legal_e/24-scm_01_e.htm

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 of the type advocated in the Mowat report and the 1998 WTO action between Bombardier and Embrear)

<http://www.scitax.com/pdf/2000.TECHNOLOGY.PARTNERSHIPS.CANADA.FP.D.Hearn.2000.pdf>

Canadian Government's Review of Federal Support to R&D panel headed by Open Text Chairman P Thomas "Tom" Jenkins

http://rd-review.ca/eic/site/033.nsf/eng/h_00000.html

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About Scitax

Scitax Advisory Partners is a professional services firm with specialist expertise in Scientific Research and Experimental Development (SR&ED) tax credits.

We offer a team of senior technical consultants all of whom have ten or more years experience in the SR&ED field. All Scitax technical consultants have engineering or science backgrounds and at least twenty years industry experience in their particular field prior to consulting.

Our primary function is to produce a technical submission package that most effectively communicates your SR&ED claim to CRA in a way that highlights eligibility and expedites processing. We assist you in identifying and preparing all required documentation including project technical descriptions, cost schedules, and everything else your tax preparer needs to file the claim. Once your claim is filed, Scitax will advocate for you with CRA and help you negotiate fair settlement of your claim.

While we normally work with our client's existing tax advisors, our affiliated firm Cadesky and Associates can provide a full package of tax services if required.



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