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# Canada offers incentives to encourage investment

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# Canada offers generous tax credits federally and provincially, including refundable tax credits for SMEs and patent box regimes

## Research and Development Tax Incentives

### Corporate Tax Overview

The 2017 combined federal and provincial corporate tax rate on business income ranges between 12.5% and 31%. The tax rate depends on the size of the corporation, ownership, and provincial jurisdiction. R&D tax credits reduce this corporate tax and is refundable in some cases.

### Incentives for R&D

Canada offers support for R&D in the form of indirect and direct funding, including support for research programs at university and research centers. The largest program, with approximately CAD $3B of investment per year, is the Scientific Research and Experimental Development (SR&ED) program for eligible R&D work carried on in Canada.

# Investment Tax Credits (ITCs) at the federal level

Federal investment tax credits are earned at 15% of qualified expenditure. These ITCs can be used to offset federal taxes payable in the taxation year, with unused ITCs available to be carried forward 20 years and carried back three years. Some restrictions apply to carry forward balances, including restrictions on the use of ITCs after an acquisition of control of the taxpayer corporation.

# Enhanced refundable tax credits for CCPCs

Small and medium-sized Canadian-controlled private corporations (CCPCs) can earn refundable investment tax credits on the first $3M of qualified expenditures at an enhanced rate of 35% if they meet all of the following requirements:

- Taxable income of less than CAD 500K, and
- Taxable capital employed in Canada of less than CAD 10M.

The expenditure limit is reduced progressively, for taxable income between CAD 500K and CAD 800K and TCEC between CAD 10M and CAD 50M, as described below.

The definition of CCPC is a corporation that is not controlled by foreign or public corporations.

Credits are refundable at 100% for expenditures up to the calculated expenditure limit, and become non-refundable 15% credits for expenditures over the calculated expenditure limit. Qualified corporations may be entitled to partial refunds on the excess: 40% of the 15% ITC is payable in cash.

# Provincial tax credits

Most Canadian provinces offer SR&ED tax credit programs that supplement the federal incentives: from 3.5% in Ontario to 30% in Quebec (including refundable credits in Alberta, British Columbia (BC), and Quebec).

Enhanced provincial tax credits are available for eligible R&D conducted by universities, research centers, and research consortia.

The provinces generally follow the federal rules for SR&ED and their incentive programs are administered by the federal tax authorities (other than Quebec and Alberta).

Quebec offers a fully refundable Wage Tax Credit on expenditures in excess of $50,000 (the threshold increases to $225,000 for large corporations).

In addition a Pre-Competitive Research Tax Credit is available in Quebec for collaborative research initiatives (encourages companies to partner with universities and research centers). The tax credit is available at a rate of 14% for eligible expenditure (salaries, 80% of payments to subcontractors, plus overhead of 55% of salaries and materials).

# Eligible projects

To qualify for SR&ED incentives, work must be performed in Canada to advance the understanding of scientific relations, technologies and to address scientific or technological obstacles.

Eligibility is broad and is not limited to particular industries and includes
A. experimental development to create new materials, devices, products, or processes improve existing ones B. applied research to advance scientific knowledge and C. basic research to advance scientific knowledge without a special practical application in view.

“shop floor” R&D can be eligible under the program but commercial production and routine development are excluded.

# Eligible SR&ED Expenditure

Qualified expenditure includes salaries or wages for employees in Canada; materials (consumed or transformed in the course of the SR&ED); 80% of payments to subcontractors for SR&ED performed in Canada by Canadian taxable suppliers; incremental overhead (or a proxy amount in lieu of overhead, see below); and payments to Canadian universities, colleges, and consortia.

There are special rules for contract SR&ED to ensure there is no duplication by Canadian companies.

Foreign contract SR&ED payments generally do not reduce eligible expenditures.

# IP and jurisdictional restrictions

The SR&ED program does not impose any restrictions on the ownership of IP.

If IP is created in the course of SR&ED activities, and is later sold, the company is not required to repay any of the tax benefits. They can still claim carryover SR&ED expenditure and ITCs related to the work, provided they continue to carry on business in Canada.

If the company is sold, carryover balances can be claimed against future income from the same business.

Generally, research must be undertaken in Canada to qualify as SR&ED but where employees are temporarily out of Canada on a Canadian R&D project, the employer can claim the related wages up to 10% of the total SR&ED salaries or wages.

# Patent Box Regimes

Three Canadian provinces currently provide reduced tax rates for revenue earned from patents and licenses to use patented technologies:

**Quebec** recently introduced a new patent box regime that applies to innovative manufacturing corporations effectively reducing the corporate tax rate to 4%. The patent box is limited to corporations having more than CAD 15M of taxable capital (sum of long-term debt and equity). Companies can benefit from a deduction that is calculated at a specified percentage (66.1% in 2017) of the value of qualified patented parts incorporated into the qualified property that the corporation sold or leased in the tax year. The deduction is limited to 50% of the net income derived from the sale, lease, or rental of the qualified property.

**Saskatchewan**'s Commercial Innovation Incentive (SCII) was initiated in August 2017 and provides a reduction in corporate taxes from 12% to 6% for a period of 10 years or 15 years (depending on if IP was developed in SK). The SCII is open to corporations from any sector, and a separate entity must be set up in Saskatchewan such that the only source of revenue is related to commercializing the IP (IP must not have been previously commercialized in Canada). The company may own OR license the IP, and the "IP" includes patents as well as copyrights, plant breeders' rights, and even trade secrets.

**British Columbia's** International Business Activity program was initiated in 2006 and is being wound down by the end of 2017.  The reduced tax rate applies to foreign income from international financial institutions, international film businesses, and international patent businesses. No applications are accepted after September 2017.

# Other eligible industries

## Defined programs for certain industries

**SR&ED tax credits are not limited to particular industries**

There are special federal and provincial tax credits for selected industries, including interactive **digital media**, **video game development**, **film and television**, as well as industries involved in the development of new technologies that address issues of **climate change**, clean air, and water and soil quality. These incentives are outside the R&D program and may be claimed in addition to SR&ED benefits.

# Innovation

**The Strategic Innovation Fund (SIF)** is a federal program that provides funding (repayable and non-repayable) through four streams for research and development, growth and expansion, and large-scale investments in Canada for companies of different sizes from a range of sectors. Introduced in 2017 with a budget of CAD 1.26B over 5 years, the SIF program combines and consolidates previous, existing funding programs (Strategic Aerospace and Defence Initiative, Technology Demonstration Program, Automotive Innovation Fund, and Automotive Supplier Innovation Program). The amount and type of funding available is discretionary and varies by type of activities proposed for a given project. The maximum amount of funding will only be considered in exceptional circumstances and is 50% up to $500 million.

**Industrial Research Assistance Program (IRAP)** provides technical advisory services and non-repayable financial contributions to qualified SMEs in Canada to help them undertake technology innovation. Qualified corporations must be established and incorporated in Canada with 500 or fewer full time equivalent employees. The business must be focused on development and commercialization of innovative, technology-driven products, services, or processes in Canada. The amount of assistance is project specific but can range from CAD 17K to CAD 500K for up to 80% of eligible costs.

# Investments

**Western Innovation Initiative (WINN)** is a CAD 100M federal initiative designed to support SMEs in Western Canada. WINN provides repayable 0% interest loans to promote the commercialization of late-stage research projects to develop new and innovative technology based products, processes, and services. Companies can receive up to 50% of total eligible project costs, with a maximum contribution of CAD 3.5M.

**South Western Ontario Development Fund (SWODF)** supports high growth potential businesses in southwestern Ontario to increase economic competitiveness and high value job creation. The program funds 15% of eligible costs up to CAD 1.5M in grant funding. Projects with budgets of more than CAD 10M can receive a loan up to 15% of eligible expenditures to a maximum principal amount of CAD 5M, with a CAD 1.5M loan forgiveness, contingent upon the company meeting the job and investment targets. Project activities supported include operational investments that improve productivity, innovation, and the potential to export goods across Canada or internationally. Eligible project costs include capital equipment, facility modifications or upgrades, internal labor, third-party consultants, and training. Project investments must be at least CAD 500K and must create new jobs upon project completion. Projects with less than CAD 10M spend have to achieve at least 10 new jobs; projects with over CAD 10M spend have to achieve at least 50 new jobs.

For profit businesses with fewer than 500 full-time equivalent employees.

# Investments (cont'd)

**Jobs & Prosperity Program (Ontario)** supports innovative projects in Ontario's key sectors, including advanced manufacturing, life sciences, and ICT that improve productivity, competitiveness, and increase access to global markets. The program provides funding in the form of a grant up to 20%, a loan of up to 40%, or a combination of grants and loans up to 40% of eligible project costs, depending on program stream. Eligible project costs include one-time labor costs directly attributable to project, purchase, or upgrade of equipment, subcontracts, materials, and R&D with a minimum project size of CAD 5M-CAD 10M, depending on the program stream.

**Development of E-Business (CDAE) (Quebec):** Administered by Investissement Québec, the tax credit for the Development of E-Business in Quebec was introduced to promote e-commerce and information technology industries. The tax credit is equal to 30% (24% refundable and 6% nonrefundable) of eligible salaries paid by the corporation to eligible employees, up to an annual maximum of CAD 25K per eligible employee. To be eligible for this credit, a corporation must obtain an eligibility certificate issued by Investissement Québec for each year the credit is claimed.

Additional investments incentives are available from a variety of sources and each has a specific target audience.

# Investments (cont'd)

**Canada Job Grant and other training and hiring grants**
The Canada Job Grant is a cost-sharing program that helps employers offset the cost of training for new or current employees. It is nationally funded and regionally administered. Funding varies depending on jurisdiction, but the program offers 66% of training costs up to CAD 10K per employee annually. There is no maximum per company.
The program is intended to support companies that require their employees to gain the skills necessary to fill available jobs, invest in their current workforce, and to equip workers with the training necessary to make their business succeed.

There are other federal and provincial programs that assist with hiring and employment, as well as training and upgrading. These include programs for youth, aboriginals, trades and apprentices, and broader adult training for job skills. Aboriginals are indigenous people to Canada and can benefit from various training programs.

**The Global Skills Strategy** can help you get workers to work faster with a two-week processing time in 80% of work permit applications, work permit exemptions for highly-skilled short-term workers duration and for researchers participating in a short-term research project in Canada.

A mode of service reserved for companies seeking to make significant investments to create jobs in Canada.

# Energy sustainability

**Sustainable Development Technology Canada (SDTC)**

Canada is committed to the creation and commercialization of clean technologies, including alternative fuels, waste management, clean water and clear air.

At the federal level, the SDTC offers grants to Canadian companies through a number of funds including the SD Tech Fund, which covers up to 33% of eligible costs with an average contribution of $2-4 million for large projects to develop new clean technologies. Eligible projects must have a minimum budget of CAD 750K, but there is no cap on project expenditures. SDTC requires a minimum of 25% private funding, which can include in-kind contributions from consortium partners. SDTC allocates about CAD 100M a year to clean tech projects.

# Other

**Films and Digital Media**

Film, digital media, video, and television receive support through refundable tax credits, at both the federal and provincial level. Companies can claim multiple credits based on location and services. Productions must be certified through the Canadian Audio-Visual Certification Office. The tax credits are claimed through the income tax system and claims are administered by the CRA and provincial agencies.

Film production tax credits are also available in Alberta, the Atlantic Provinces other than PEI, and the territories (Yukon, North West Territories and Nunavut).

# Film production tax credits
## Federal

Canada offers a refundable film or video production tax credit to Canadian Controlled production companies at 25% of qualified labor paid to Canadian residents employed on a qualified production, net of provincial tax incentives and any other government assistance. Qualified labor is capped at 60% of net production costs. Non-Canadian controlled production companies doing business in Canada are eligible at a rate of 16% of qualified labor.

Every province, other than Prince Edward Island, offers additional credits for companies operating out of a permanent establishment in the relevant province.

# Film production tax credits (cont'd)
## Provincial

**British Columbia (BC)** has a film and video production tax credit based on qualified labor, at rates of 35% for Canadian controlled production companies and 28% for other corporations. There also is a 12.5% regional tax credit (6% for non-Canadian controlled production companies) and a 6% distant location credit for qualifying labor. In addition, BC offers a 16% credit for digital animation or special effects. Qualified labor can qualify for multiple credits, in some cases totaling nearly 70% of the labor costs.

**Manitoba** has a film and video production tax credit of 45% of eligible labor or 30% of eligible production costs. There is also a 5% regional tax credit, a 10% bonus for frequent producers, and a 5% bonus for a local producer.

**Ontario** has a 35% credit for Canadian controlled production companies based on qualified Ontario labor, plus a 10% regional credit and a 5% first time producer credit. Non-Canadian controlled production companies are eligible for a 21.5% credit. In addition, Ontario offers an 18% credit for computer animation and special effects.

**Quebec** offers a 40% film and television production tax credit for French language or giant screen productions produced by eligible Quebec controlled companies. The credit is based on qualified labor, capped at 50% of production costs. There also is a regional bonus of 10%, and a 16% bonus for productions that do not receive any other government assistance. For other productions by an eligible Quebec controlled company, there is a credit of 32%, with qualified labour expenditure capped at 50% of production costs, regional bonus of 20%, a 16% bonus for productions not receiving other government assistance, and a 10% bonus for special effects and computer animation. The credit is 20% for other companies with a 16% bonus for special effects and computer animation. Quebec offers a 35% film dubbing tax credit capped at 15.75% of dubbing costs.

Tax credits are also available in Alberta, the Atlantic Provinces other than PEI, and the and the territories (Yukon, North West Territories and Nunavut).

# Digital media tax credits

Regionally administered, digital media tax credits can range from 17.5% to 40% of qualifying salary costs (depending on the province). These tax credits incentivize digital media production by reducing the net cost for creating, marketing, and distributing eligible interactive digital media products. The credits are refundable and claimed at the end of the taxation year.

Interactive digital media credits for video games and other digital applications are available in many provinces.

- **BC** offers a 17.5% refundable tax credit based on qualified BC salaries.
- **Ontario** offers a 40% refundable tax credit for the development of interactive digital media products based on eligible Ontario labor, including eligible marketing and distribution expenditures. The credit is available to qualifying corporations that develop and market their own products. The credit is 35% for products developed under fee for service arrangements and 35% for the development of eligible digital games.
- **Quebec** offers a 30% refundable tax credit for multi-media titles intended for commercialization (26.5% for other multimedia titles), with a 7.5% premium for French. The credit is based on the corporation’s qualified labor, not the production’s qualified labor.
- **Nova Scotia** offers a tax credit of the lesser of 50% of eligible labor plus 10% regional credit or 25% of total expenditure, plus a 5% regional credit, plus an animation incentive of 17.5% of eligible labor (maximum labour expenditure of CAD 150K).
- Digital media tax credits are also available in **Manitoba** (40%), **Newfoundland, and Labrador** (40%), **Prince Edward Island** (25%).

# Developing export opportunities

**The CanExport program (SME)** provides direct financial support for SMEs to develop new export opportunities. An SME for this purpose has fewer than 250 employees and less than CAD 50M in annual revenue. The funding available is 50% of eligible project costs with a maximum grant of CAD 99,999. To qualify for this program, the SME must incur at least CAD 20K in developing export opportunities because the minimum award is CAD 10K (50% of eligible costs).

This national program can provide total funding of up to CAD 50M over 5 years.