RESEARCH & INNOVATION INVESTMENT SUMMARY

Prepared by: Robert Merson, March 29, 2012

Strengthening and leveraging the private sector as a key player in advancing innovation was a primary theme of the Canadian federal budget, presented March 29, 2012. The announcement to eliminate the penny from Canadian currency was also a point of interest.

Existing funding programs received increased investment, a total of $37M across the tri-councils and $60M for Genome Canada. The National Research Council was provided with $67M to support the transition from an institute model over to a program model.

Industry will benefit from a doubling of IRAP investment to $110M per year and the investment of $500M in venture capital.

Changes to the SR&ED's program will ultimately generate a savings of $35M per year as a result of a lower eligible rate of claim (details below).

Excerpts on Innovation from the Canadian Federal Budget 2012

Compiled from budget (Source: Ministry of Finance, Budget 2012)

Creating Value-Added Jobs Through Innovation

The Government is committed to a new approach to supporting innovation that focuses resources on private sector needs. Economic Action Plan 2012 proposes:

- $400 million to help increase private sector investments in early-stage risk capital, and to support the creation of large-scale venture capital funds led by the private sector.
- $100 million to the Business Development Bank of Canada to support its venture capital activities (*a confirmed previous commitment*).
- $110 million per year to the National Research Council (starting in 2012-13) to double support to companies through the Industrial Research Assistance Program.
- $14 million over two years to double the Industrial Research and Development Internship program.
- $12 million per year to make the Business-Led Networks of Centres of Excellence program permanent.
- $105 million over two years to support forestry innovation and market development.
- $95 million over three years, starting in 2013–14, and $40 million per year thereafter to make the Canadian Innovation Commercialization Program permanent and to add a military procurement component.
- $67 million in 2012–13 as the National Research Council refocuses on business-led, industry-relevant research.
- Streamlining and improving the Scientific Research and Experimental Development tax incentive program:
    - The two design improvements will affect the calculation of overhead expenditures and of arm's length contract payments:

        - To limit instances where the rules result in tax credits being provided for overhead costs that exceed the actual costs incurred, Economic Action Plan 2012 proposes to gradually reduce the "prescribed proxy amount" that is used to compute overhead expenditures under the so-called "proxy method," from 65 per cent to 55 per cent of direct labour costs. The 55-per-cent rate will be fully phased in as of January 1, 2014.
        - To remove the profit element from arm's length contract payments, Economic Action Plan 2012 proposes to allow only 80 per cent of these contract payments to be used for the purposes of calculating the SR&ED tax credits. This change is consistent with the current tax treatment of non-arm's length contracts, and will target the tax credits to SR&ED expenditures incurred, and not on profit margins. It will be effective as of January 1, 2013.
    - Economic Action Plan 2012 also proposes a reduction in the general SR&ED investment tax credit rate. The recent corporate income tax rate reductions (from 22.12 per cent in 2007 to 15 per cent in 2012) have effectively increased the relative generosity of the SR&ED tax incentive program and resulted in growing pools of unused investment tax credits. Effective January 1, 2014, the general SR&ED investment tax credit rate will be reduced from 20 per cent to 15 per cent.
    - In addition, Economic Action Plan 2012 announces actions by the Canada Revenue Agency to improve the predictability of the SR&ED tax incentive program. The Government will invest $4 million in 2012–13 and $2 million in 2013–14 to implement changes to the administration of the program. As well, in the coming year, the Government will conduct a study, including consultations with taxpayers, to better understand why firms choose to hire consultants on a contingency fee basis and determine whether action is required.

Support for Research, Education and Training

The Government is committed to providing additional resources to support advanced research at universities and other leading research institutions. Economic Action Plan 2012 proposes:

- $37 million annually starting in 2012–13 to the granting councils to enhance their support for industry-academic research partnerships.
    - $15 million per year to the Canadian Institutes of Health Research for its Strategy for Patient-Oriented Research.
    - $15 million per year to the Natural Sciences and Engineering Research Council for its Strategy for Partnerships and Innovation.
    - $7 million per year to the Social Sciences and Humanities Research Council for its industry-academic partnership initiatives.
- $60 million for Genome Canada to launch a new applied research competition in the area of human health, and to sustain the Science and Technology Centres until 2014–15.
- $5.2 million in 2012–13 to establish and integrate a network of mental health-related professionals. Research will be centered on treating depression, with a focus on suicide prevention and post-traumatic stress disorder.

Canadian Federal Budget – FY 2012

- $6.5 million over three years for a research project at McMaster University to evaluate team-based approaches to health care delivery.
- $17 million over two years to further advance the development of alternatives to existing isotope production technologies.
- $10 million over two years to the Canadian Institute for Advanced Research to link Canadians to global research networks.
- $500 million over five years, starting in 2014–15, to the Canada Foundation for Innovation to support advanced research infrastructure.
- $40 million over two years to support CANARIE's operation of Canada's ultra-high speed research network.
- $23 million over two years to Natural Resources Canada to enhance satellite data reception capacity.

For additional information about funding for innovation in Canada, contact:

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Summary Investment Table (3.1 from Budget)

Table 3.1

Supporting Entrepreneurs, Innovators and World-Class Research

millions of dollars

	2012–13	2013–14	Total
Creating Value-Added Jobs Through Innovation			
Increasing Direct Support for Business Innovation			
Doubling the Industrial Research Assistance Program	110	110	220
Supporting Private and Public Sector Research Collaboration			
Integrating High-Quality Researchers Into the Labour Market	7	7	14
Strengthening Knowledge Transfer and Commercialization	12	12	24
Forestry Innovation and Market Development Support	55	50	105
Supporting Innovation Through Procurement		25	25
Refocusing the National Research Council	67		67
Scientific Research and Experimental Development Tax Incentive Program			
Increasing Cost-Effectiveness			
Reduce Overhead Proxy Rate From 65 per cent to 55 per cent		-10	-10
Remove the Profit Element From Arm's Length Contract Payments		-25	-25
Enhancing Predictability	4	2	7
Subtotal—Creating Value-Added Jobs Through Innovation	255	171	426
Support for Research, Education and Training			
Supporting Advanced Research			
Promoting Post-Secondary and Private Sector Research Collaborations	37	37	74
Investing in Genomics Research	10	50	60
Investing in Mental Health Research	5		5
Promoting Cost-Effective Health Care	3	2	5
Diversifying Canada's Medical Isotope Supply	7	10	17
Supporting Leading-Edge Researchers	5	5	10
Investing in Leading-Edge Research Infrastructure			
Supporting Canada's Ultra-High Speed Research Network	20	20	40
Revitalizing Natural Resources Canada's Satellite Station Facilities	8	16	23
Supporting Atomic Energy of Canada Limited	105	1	107
Subtotal—Support for Research, Education and Training	200	141	341
Total—Supporting Entrepreneurs, Innovators and World-Class Research	**454**	**312**	**767**
Less funds existing in the fiscal framework	149	97	246
Net fiscal cost	**306**	**215**	**521**

Note: Totals may not add due to rounding.