

MANUFACTURING

FEDERAL GOVERNMENT RELEASES REPORT ON SR&ED

ON OCTOBER 17, 2011, THE EXPERT PANEL APPOINTED BY THE FEDERAL GOVERNMENT ISSUED "REVIEW OF FEDERAL SUPPORT TO RESEARCH AND DEVELOPMENT"

The report makes six main recommendations that call for a simplified and more focused approach to the five billion dollars' worth of funding from the Scientific Research and Experimental Development (SR&ED) program provided by the federal government each year.

The six recommendations are:

1. Create an industrial research and innovation counsel to deliver the federal government business innovations program

The creation of an ongoing funding and delivery agency would help to start streamlining the process.

2. Simplify the tax credit system used to support small and medium enterprises (SMEs), which the panel believes is unnecessarily complicated

The panel recommends basing the SR&ED credit solely on labour costs to make the program more effective. (The provincial SR&ED tax credit in Quebec is currently only based on labour costs incurred in Quebec.) This proposal calls for redeploying funds from the tax credit to a more complete set of direct support initiatives to help SMEs become larger, competitive firms.

3. Make business innovation one of the core objectives of procurement
4. Transform the institutes of the National Research Council into a series of large scale, collaborative centres that involve business, universities and the provinces
5. Help high-growth innovative firms access the risk capital they need through the establishment of new funds where the gaps currently exist

The federal government's contribution to the funds would be delivered through the Business Development Bank of Canada.

6. Establish a clear federal voice for innovation and work with the provinces to improve coordination

Although not one of the major recommendations, the report also suggests that at least part of the SR&ED tax credits currently available to corporations should not be refundable. This means that these credits would have to be applied in order to reduce tax that is otherwise payable.

However, the panel did note that a move from refundable credits would have to be implemented over several years. Under current rules, where a credit is not refunded or applied to reduce tax, the unused amount can be carried forward for up to 20 years.

Although making the system more simplistic is an important goal, limiting the credit to labour costs will not reward corporations that make capital investments that advance innovation.

If you have any questions on how the report may affect your business, please contact your BDO SR&ED advisors:

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