Will the research and development tax incentive be scrapped?

Elliot Schiller

The program is under review but don't be surprised when changes come

Are you planning on beginning a new innovation project in order to attempt to develop a new product, enhance an existing product, or improve your production processes in a way which would make them better, faster, or cheaper? If so, you need to know that the funding that you would normally anticipate from the Scientific Research and Experimental Development (SR&ED) innovation tax incentive program to help fund your project(s) is under review and could very likely change.

The SR&ED program is a federally sponsored program that encourages domestic manufacturing innovations with refundable tax incentives for small to medium sized companies and tax credits for larger or foreign owned companies. To learn more about the SR&ED program, see the digital version of the July 2015 issue: graphicartsmag.com/issues/july-2015/ .

Since the publication of the federally sponsored *Review of Federal Support to R&D* in 2011, which had some significant criticisms of the program, we've continued to experience reductions in the monetary value of the SR&ED program. At its peak, the program was providing Canadian manufacturers with over $6 billion annually to support their innovation projects. Today the program has been cut to half that amount and provincially both Quebec and Ontario have reduced their SR&ED financial incentives.

Budget 2017 promised to begin comprehensive reviews of various federal departments in order to "eliminate poorly targeted and inefficient programs, wasteful spending, and ineffective and obsolete government initiatives." The reviews are being led by Finance Minister Bill Morneau and Treasury Board President Scott Brison.

While we haven't heard the results of these reviews yet, considering the changes to the tax act that the Liberals have recently announced, it would come as no surprise if the SR&ED tax incentives which benefits upwards of 20,000 companies in Canada also experiences changes. Let's look at the recent history of the program.

The background

The modern version of R&D tax credits began in 1986. At that time, qualifying companies were able to obtain refundable tax credits for the cost of labour, including overhead (or "proxy" in lieu of overhead), materials and capital used in the innovation process. In 2012, the base of eligible expenditures was narrowed as capital expenditures were eliminated from the program, contractor costs were reduced by 20% and the "proxy" allowable was reduced by 10% (spread over 3 years). Further, the general SR&ED investment tax credit was reduced by 5%. In Ontario, effective for tax years straddling June 1, 2016, the Ontario R&D tax credit rate was reduced 1% and the Ontario Innovation tax credit rate was reduced 2%. In Quebec, on December 2, 2014 the government introduced a minimum eligibility threshold in order to receive any R&D tax credits. That threshold, $50,000 was estimated to represent eliminating almost 40% of all claimants.

There are also the ongoing discussions about NAFTA, which currently allows U.S. and Canada SR&ED incentives, primarily because when the original agreement was negotiated, the U.S. had a similar type incentive program. But of course, this may not be the case going forward after the renegotiation of NAFTA. Based on all of the above, it would not be unreasonable to anticipate that if the trend continues, government participation in Canadian industry innovation via SR&ED is going to decrease.

When Canada was in the process of finalizing the original Canada-United States Free Trade Agreement in 1987, Simon Reisman, Canada's chief negotiator, along with various Canadian CEOs led a cross-Canada seminar series on the contents and tax benefits included within the agreement. At that time, numerous panelists repeated the well-known business maxim "business decisions should be based on what's best for the business, not necessarily what's best for tax purposes." You know what's best for your business, and in order to make the most effective business decisions, it's best if you know as many of the facts as possible in order to make those decisions.

If you're thinking of developing new products, or revamping your production processes, it might be prudent to move those plans forward, to take advantage of the existing generous tax incentives

Therefore, as part of your business planning strategy, if you are thinking of developing new products, improving existing products or revamping your production processes, it just might be prudent to move those plans forward, to take advantage of the existing generous tax incentives.

Elliot Schiller is a Director at Toronto's Teeger Schiller Inc., a firm specializing in government funding and systems selection/implementation. His clients receive over $5 million annually to support ongoing business innovation. E-mail eschiller@teegerschiller.com, visit www.FundingHelp.ca or phone 1-888-816-0222 Ext. 102

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David Teeger

Director

David Teeger C.A., C.A. (S.A.) graduated as a Chartered Accountant in South Africa, and upon arrival in Canada he obtained his Canadian C.A. designation and joined Richter & Associates, a management consulting firm, where he concentrated his practice on various business sectors including household goods, fashion, automotive parts, public associations, and retail chains. He performed many roles in his 15 years at Richter, including managing the professional services organization in North America and all business operations throughout Europe.

David's professional capabilities include computer audits, feasibility studies, system analyses and assistance in the selection, negotiation and implementation of computerized solutions.

As a founding partner of Teeger Schiller Inc., he has focused his practice on consulting to management. His team of professionals has helped businesses select and successfully install a variety of ERP business solutions and add-on systems including business intelligence solutions to give new life to existing computer systems. David's clients not only rely on him to successfully manage the implementation of their new systems, but to manage the change that occurs in their organizations as a result of the use of these new tools.

Elliot Schiller

Director

Elliot Schiller, Ph.D., C.M.C. began his career as a Chemical Engineer working for Grumman Aircraft, in Long Island, New York. He obtained his Ph.D. at the University of Pittsburgh with funding from the U.S. Atomic Energy Commission, and, after being awarded a Presidential Fellowship, he went on to perform research and development activities at Brookhaven National Laboratory.

Since coming to Canada, he has primarily assisted consumer products and retail organizations in a variety of strategic management initiatives, traveling around the globe on behalf of his clients. In 1987, Elliot joined Richter & Associates, and it is here that he first met David Teeger.

As a founding partner of Teeger Schiller Inc., he has focused the SR&ED / Grant Division on obtaining grants and tax incentives for over 100 companies in the small to medium sized business sector. His team has provided services to the discrete / processing manufacturing, material development, textiles, apparel, automotive and computer sciences sectors. Annually,Teeger Schiller Inc. secures more than $5 million in government funding to assist its clients in having their business initiatives supported by government funding.

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