

## The Jenkins Panel recommends changes to funding R&D in Canada

Last year, in October 2010, the Government of Canada established an independent expert panel led by Mr. Tom Jenkins, CEO of OpenText Corporation, to review all the federal programs that support research and development (R&D) in Canada and to provide recommendations on how it can maximize the benefit of almost \$7 billion dollars spent annually to support business R&D in Canada. The six-member panel was asked to review three types of federal R&D initiatives:

- Tax incentive programs, such as the Scientific Research and Experimental Development (SR&ED) program
- Programs that support innovative business, such as general support (e.g. Industrial Research Assistance Program, IRAP), sector support (e.g. Aerospace), regional support (e.g. Atlantic Innovation Fund)
- Programs that support business-focused R&D through federal granting councils and other departments and agencies, including research at universities and colleges (i.e., Centres of Excellence for Commercialization and Research)

ALMA Consulting Group Canada supports and encourages endeavors to improve Canada's innovation and productivity. As a result, we had submitted our recommendations to the Expert Panel during the consultation process. [Read more on Alma's recommendations to Expert Panel.](#)

On October 18th, several members of the Alma team attended Tom Jenkins' presentation of the Expert Panel Report in Toronto, ON. [Review the complete findings of the Jenkins Panel Report here.](#) The report outlines six broad recommendations the panel makes to the Federal government on how to foster further innovation in Canada, without affecting the overall level of Federal support to R&D.

As this was an independent panel, the federal government will have to review and evaluate the recommendations. In response to the report's recommendations, the Federal Science Minister Gary Goodyear stated that he will examine the balance between direct and indirect R&D spending. He would not commit to implementing the report's main findings or provide a timetable for making changes. The panel suggests the Government may require a one to three year period to embrace the main recommendations.

The Panel's recommendations include the following:

1. Create an Industrial Research and Innovation Council with a clear business innovation mandate.
2. **Simplify the SR&ED program by basing the tax credit for small and medium-sized enterprises (SME's) on labour-related costs.** Deploy funds from the tax credit to a more complete set of direct support initiatives to help SME's grow into larger, competitive firms.
3. Make business innovation one of the core objectives of government procurement, with the supporting initiatives to achieve this objective.

4. Transform the National Research Council (NRC) into a constellation of large-scale, sectoral collaborative R&D centres involving business, the university sector and the provinces.
5. Help high-growth innovative firms access the risk capital they need through the establishment of new funds where gaps exist.
6. Establish a clear federal voice for innovation, and engage in a dialogue with the provinces to improve coordination and impact.

One of the six recommendations relates to simplifying the SR&ED tax credit program, the largest source of funding for Canadian companies.

### Simplify the SR&ED Program

The panel recommends “simpler compliance and administration” and “more predictable qualifications”. It recommends basing (or limiting) the tax credit for SME’s on a labour-based cost system, suggesting the complexity of the existing program is based on calculating project expenditures, such as materials and capital costs.

While simplification is desirable, we do not believe by implementing such a recommendation that it would lead to a simplified program. The main cause of complexity and “the reason” why many companies do not take advantage of the program stems from the science eligibility of the project or because they do not have access to the refundable tax credits. The unpredictability in the scientific qualification of projects is a daunting challenge and often deters companies from claiming. As well, non-SME corporations not in a taxable position hesitate to invest today in securing credits for which can not be utilized immediately. Moving to a labour-based program will have a significant impact on the business sectors where the consumption of materials is a significant cost to their developments and the testing of their new technologies. Many of these sectors’ profit margins have already been severely impacted by the strength of the Canadian dollar and the slowing of the US economy. The elimination of the recovery on materials will impact their risk and increase their costs in future projects.

The other recommendations related to SR&ED are:

**More predictable qualifications:** Improve the CRA’s pre-claim project review service to provide companies with pre-approval of their eligibility for SR&ED credits.

**More cost effective:** Reduce the amount of SR&ED tax credit assistance by introducing incentives that encourage the growth and profitability of SME’s while decreasing the refundable portion of the credit over time. Redeploy the savings to fund new and/or enhanced support for innovation by SME’s, as proposed in the panel’s other recommendations.

**More accountable:** Provide data on the performance of the SR&ED tax credit regularly to permit evaluation of its cost-effectiveness in stimulating R&D, innovation and productivity growth.

**Phased implementation and consultation:** Adopt the proposed changes through a phased-in approach to give the business sector time to plan and adjust smoothly. There should be early consultations with the provinces on the proposed changes, given that they may want to consider adopting the same base as the federal government.

### Summary

We are pleased that the Panel recognizes the challenges faced by start-ups and agree with their recommendations of a wider range of support to help them during the start-up and late stages of their development cycles. We look forward to seeing what new programs will be introduced.

We are also pleased that the panel has recognized the value and the benefits of having both direct and indirect sources of funding. In the process, they have identified two key funding gaps in moving a project from start through to commercialization, as well as the need for consolidating the administration of a number of the programs.

Just as tax advisors are essential in assisting corporations to navigate, stay up to date and remain in compliance with Canadian or international tax laws, there will remain a need for specialized expertise to assist corporations in navigating through the innovation programs, remain up to date on policy changes and ensure compliance to the programs' rules, as well as maintenance of their programs in order to secure the delivery of their credits.

### **About Alma Consulting Group Canada**

Alma Consulting Group has a unique perspective, as we deal with different government support programs, direct and indirect funding of businesses in over 15 countries. Our team across Canada will continue to be an advocate and inform potential & current claimants of any new programs and to facilitate the preparation of their SR&ED and other tax credit submissions.