ENCOURAGING INNOVATION THE RIGHT WAY (2012 – RENEWED 2015)

Creating a positive and supportive environment for innovation in Canada is the key to prosperous economic future. It is well known that Canada lags other countries in terms of R&D spending and the development of new products and services. Improving Canada's global competitiveness is one of the most important issues on the national agenda.

Navigating the path forward is challenging and complex. A recent report done for the federal government and released in October 2011 on R&D spending in Canada (The Jenkins Report) made a number of recommendations. Although the Jenkins Report correctly identified the importance of encouraging innovation, some of its conclusions may ultimately hinder rather promote energetic entrepreneurial endeavours.

The Jenkins Report recommended that the Scientific Research and Experimental Development (SRED) program be overhauled and simplified. Unfortunately, the suggested re-organization could ultimately prove negative for Small and Medium Enterprises (SMEs).

Consider the following:

The Jenkins report recommends basing the SRED tax credit on labour costs and over time shift the tax refunds to directed support for SMEs.

The simplified SRED program will create a bias towards research being carried out by labour intensive industries at the expensive of capital intensive manufacturing industries. Capital investments, both tangible and intangible have been shown to be essential components of innovation. The SRED process often includes the costs of capital equipment for testing, prototype production, and the cost of materials and outside consultants.

The Jenkins Report also calls for a new government agency to help entrepreneurs commercialize their ideas. The Industrial Research and Innovation Council (IRIC) would be a new bureaucracy expending limited funds available for R&D. It would also centralize decision making. Projects would have to be pre-approved leading to significantly less R&D by smaller companies without the time or money to make applications to a distant authority.

Furthermore, SMEs often develop new products based on the needs of customers. Waiting for pre-approval will slow the process and discourage innovation.

The SRED tax credits are based on audits by the Canada Revenue Agency (CRA). Rather phasing out of the tax credits, the CRA needs a more streamlined, clearer list of criteria for tax credit applications. Too often worthy projects that approved one year are rejected the next. This is sometimes due to changes in CRA policies or even personnel.

Expanding the decision making role of the National Research Council (NRC) is another of the report's suggestions for improving innovation. This is a positive step. The determination of SRED tax credits should be determined by the NRD or IRAP rather than the CRA.

THE CHAMBER RECOMMENDS

That the Federal Government:

1. reject any plan that favours labour intensive industries over capital intensive industries;

2. maintain the existing SRED program so that any company may continue to participate in the SRED tax credit program;

3. continue to make SMEs eligible for tax credits; and

4. reject any plan that requires pre-approval or an eligibility test for direct funding.

Submitted by Kamloops Chamber of Commerce