



AIAC Issue Position

Improving the Effectiveness of SR&ED Investment Tax Credits in Supporting Aerospace Technology Development & Commercialization

ISSUE:

Canadian based aerospace firms annually invest more than \$1 billion in R&D. With 85% of Canadian aerospace output destined for export markets, they have chosen to invest in and serve global aerospace markets from Canada. Competition for future investment is intensifying. In this changing environment, the federal Scientific Research & Experimental Development (SR&ED) investment tax credit (ITC) program is only marginally effective in stimulating aerospace R&D investment in Canada. SR&ED refundable credits are available to only a small segment of the industry – Canadian Controlled Private Corporations (CCPCs). Non-refundable credits earned by publicly controlled firms and non-resident controlled firms (who account for the bulk of aerospace R&D investment in Canada) can only be used to reduce income tax payable. As a result, SR&ED ITCs provide little or no assistance to these firms when they need it most - in sustained market downturns, or when earnings significantly lag R&D investment (a common situation in aerospace, with its long investment payback cycle). For non-resident controlled firms the problem is compounded because non-refundable SR&ED ITCs get washed away on consolidation, increasing these firms' home country income tax liability. Consequently, the SR&ED ITC provides no net benefit in determining total taxes payable for all jurisdictions.

OBJECTIVE: UNIVERSAL ACCESS TO REFUNDABLE SR&ED INVESTMENT TAX CREDITS

The Federal Government should move quickly to provide equitable treatment for all businesses, regardless of corporate status (e.g. size, ownership), by making all SR&ED ITCs that cannot be applied against taxes owing refundable in the year that they are earned.

RECOMMENDED IMPLEMENTATION ACTIONS FOR THE FEDERAL GOVERNMENT:

1. Eliminate the distinction between CCPCs and other Canadian corporations with respect to SR&ED ITC refundability.
2. Make all SR&ED ITCs 100% refundable by:
 - a. eliminating current expenditure and previous year taxable income limits that restrict refundability to less than 100%
 - b. increasing the rate of refundability for SR&ED capital expenditures to 100%
3. Examine ways in which companies could be provided accelerated access to accumulated (past) credits.

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