Canadian Clean Cash:

Renewable Energy Impact in the Wake of the Federal Budget

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Despite tension-filled anticipation of the 2012 federal budget announcement on March 29, Canada's Scientific Research and Experimental Development (SR&ED) program continues to be one of the most lucrative research and development (R&D) tax incentives in the industrial world. Last year, SR&ED awarded $3.6 billion in tax credits to Canadian corporations contributing in varying degrees to the Canadian R&D drive. The budget (Jobs, Growth and Long-Term Prosperity: Economic Action Plan 2012) turned out to be a pleasant surprise for SR&ED stakeholders and claimants, as serious cuts to the program were rumored in the days preceding the budget announcement. The 35 percent enhanced Investment Tax Credit (ITC) rate survived the few key modifications to the program. Further revisions, however, will have an impact on companies within the renewable energy industry.

There were four main revisions to the SR&ED program announced in the budget: capital costs in 2014 and onward will no longer be eligible for the credit; the Prescribed Proxy Amount (PPA) for calculating overhead will be reduced by 10 percent to 55 percent of direct labour costs to be phased in by 2014; eligible third-party contract payments will be reduced to 80 percent in 2013; and the General Investment Tax Credit will decrease by five percent beginning in 2014.

The changes, if implemented, will improve the administration process for the program. Further funds are being directed towards improving the CRA application and review processes. SR&ED will continue to refund a significant portion of salary expenses and subcontract labour of environmental projects and will continue to have a positive impact with regard to return on investment.

However, the reduction of the general ITC for large corporations and the elimination of capital from eligible expenditures do have an effect on the clean technology industry. Clean tech, especially within the renewable energy sector, can be capital-intensive and often incurs large equipment costs. Reducing the Prescribed Proxy Amount (PPA), which is used to calculate an approximate overhead value, will also affect capital-intensive projects — yet could be an overall improvement to the program, since the PPA rate would sometimes result in an over-estimation of overhead costs.

The budget also takes into account the growing difficulty for small businesses to secure venture capital or investment funding and addresses the issue with the intention to reallocate funds from the SR&ED reductions into venture capital initiatives. In response to recommendations laid out in the Jenkins report, the budget also fleshed out direct funding programs including the Industrial Research Assistance Program (IRAP). This could result in more time invested into targeted grant proposals and approval-contingent waiting periods; however, the larger corporations are more likely to survive this cycle as compared to small business with contemporaneous and often spontaneous R&D initiatives.

The budget continues to support R&D-fueled employment growth; clean tech industry employment grew 11 percent between 2008 and 2011, and Canadian owned companies generated 86 percent of the total industry revenue ($9.1 billion) in 2010. The conversation on how to best support R&D in Canada needs to incorporate all voices, with Canadian industry and business leaders addressing the proposed legislation and government efforts. The clean technology sector, which in many ways is the face of Canadian innovation, should stand at the forefront of this conversation.

Source: Renewable Energy World. 26 April 2012. www.renewableenergyworld.com