

## **Special Focus**

### **2016 Federal and Provincial Budgets**

#### **Editor's Welcome: Adapting to Change**

Adaptability is one of the most crucial factors in determining the success of a business. It is also one of the most difficult qualities to maintain in our ever-changing global business environment, and it requires companies to stay continually informed about any customer, regulation, or financial changes that may affect their business. As the Canadian business landscape shifts over the next few years, companies can gain a competitive advantage by understanding how proposals in the 2016 federal and provincial budgets impact them and developing strategies to adapt and leverage these changes to their benefit.

One of the most significant updates in the 2016 Federal Budget was the reduction of the small business tax rate from 11% to 10.5%, although further reductions tabled in the 2015 Federal Budget have been deferred. Meanwhile, the 2016 Ontario budget saw reductions in the Ontario Innovation Tax Credit (OITC) from 10% to 8% and the Ontario Research and Development Tax Credit (ORDTC) from 4.5% to 3.5%, effective June 1, 2016.

In light of the recent changes to the business tax rate and R&D funding, it is now more important than ever to adapt to the changing business environment by leveraging as many funding opportunities as possible and to maximize the value of each claim at every step of the application process.



#### **Updates to Government Funding Programs**

In 2016 and 2017, the Government of Canada will develop a new Innovation Agenda that will be focused on achieving a new vision for the Canadian economy as a centre for global innovation. In anticipation of the new Innovation Agenda, some interim measures were proposed in the 2016 Federal Budget which are aimed at strengthening scientific and research endeavours, supporting business growth and innovation, expanding trade opportunities, and enhancing investment in workforce skills and training.

##### **Key Innovation and Business Growth Investments**

- \$800M over four years (\$150M in 2016) to support innovation clusters and networks (as a preliminary measure of the government's planned Innovation Agenda -- further details will be provided in the coming months);
- An additional \$50M to the Industrial Research Assistance Program (IRAP) to increase the number of small- and medium-sized companies served by Industrial Technology Advisors in order to help those companies innovate and grow;
- \$4M over two years, starting in 2016, to renew the Canadian Technology Accelerator (CTA) Initiative, which supports Canadian information and communications technology (ICT), life sciences, and clean technology firms by increasing access to global markets and expertise; and
- \$40M over two years, starting in 2016, to renew the Strategic Investments in Northern Economic Development (SINED) program delivered by the Canadian Northern Economic Development Agency.

*Continues on Page 3: "Notable Focused Investments"*



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# 2016 Federal Budget

## Summary and Important Changes

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### Small Business Tax Rate

In 2008, the small business tax rate, applied to the first \$500,000 per year of qualifying active business income, was reduced to 11%. The 2015 Federal Budget included a proposal to reduce the small business tax rate for Canadian-controlled private corporations (CCPCs) with less than \$15M in taxable capital from 11 to 9% by 2019 in the following stages:

- 10.5% effective January 1, 2016;
- 10% effective January 1, 2017 (deferred in the 2016 Federal Budget);
- 9.5% effective January 1, 2018 (deferred in the 2016 Federal Budget); and
- 9% effective January 1, 2019 (deferred in the 2016 Federal Budget).

The 2016 Federal Budget includes a reduction to the small business income tax rate from 11 to 10.5%; however, further reductions proposed in the 2015 Federal Budget have been deferred, as detailed above.



### Trade

#### Import

The 2016 Federal Budget includes a proposal to eliminate several manufacturing input tariffs. This proposal is expected to provide Canadian manufacturers in the consumer goods and transportation sectors approximately \$9M in tariff savings over the next five years.

The 2016 Federal Budget also details the federal government's intention to launch public consultations regarding the elimination of tariffs on food manufacturing ingredients other than supply-managed products. Since 2009, over 1,800 tariffs have been eliminated, providing more than \$450M in annual tariff relief for Canadian manufacturers.

#### Export

As a result of a lower Canadian dollar and increased U.S. demand, export volumes increased in late 2015 and early 2016. This manufacturing sales growth was especially notable in the forestry products, automotive, and consumer goods sectors.

The 2016 Federal Budget includes a proposed long-term infrastructure investment plan to develop efficient trade networks that will enhance international trade opportunities for Canadian exporters.

Additionally, the federal government recently completed the final steps required to implement the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), which will provide Canada greater access to the world's largest market, with a combined GDP of \$20T.





Continued from Page 1: “Updates to Government Funding Programs”

## Notable Focused Investments

### Automotive

- A three-year extension to the Automotive Innovation Fund (AIF), previously scheduled to close at the end of 2017, deferring the end of the program until the end of 2020. Established in 2008, the AIF supports R&D projects aimed at building more fuel-efficient vehicles.

### Agri and Food Processing

- \$4M in 2016 to the Growing Forward 2 (GF2) initiative to continue supporting agri and food processing companies, in line with the current \$3B investment over five years (2013-2018), through funding strategic investments in innovation, competitiveness, and market development in the agriculture and agri-food industry.

### Aerospace

- \$30M over four years, starting in 2016, to maintain Canada’s participation in the European Space Agency’s Advanced Research in Telecommunications Systems (ARTES) program; and
- \$50M over five years to the Perimeter Institute for Theoretical Physics.

### Biotech and Pharmaceutical

- \$237M until 2020 for advancing Canadian leadership in genomics;
- \$32M over two years for commercializing Canadian health discoveries;
- \$12M over two years to aid research through the Stem Cell Network; and
- \$20M over three years to support brain research.

### Workforce Development

- \$165M for the Youth Employment Strategy (YES). The federal Youth Employment Strategy (YES) includes contributions of over \$330M annually to help youth gain the skills and experience necessary to thrive in Canada’s highly competitive labour market; and
- \$339M was previously announced in February 2016 for the Canada Summer Jobs program, which provides funding to help employers create summer employment opportunities for students.

## Economic Review: 2015

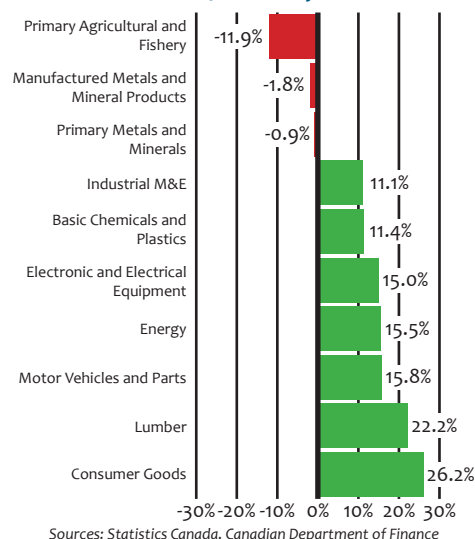
While Canadian real GDP growth in 2015 was weak due to declining business investment in the oil and gas sector, Canadian export volume rose as a result of a low Canadian dollar and increased demand for Canadian imports in the United States.

Commodity prices, especially crude oil, fell in 2015 and early 2016 as a result of financial market volatility, persistent oversupply, and weak demand. As a result, crude oil prices of less than US\$60 per barrel are projected through to 2020.

In conjunction with this oversupply and weak demand, global economic growth in 2015 was at its weakest since the 2008–2009 recession, led by slower growth in emerging economies. Likewise, commodity pricing was subject to slower growth than anticipated at the beginning of 2015.

As a result of low crude oil prices driving growth in consumer spending, Eurozone real GDP has grown by 0.6% since 2014, while real GDP growth in the U.S. has held steady at 2.4% as decreased oil price-related income mitigates these spending gains.

Percent Growth in Real Merchandise Exports,  
June 2014 to January 2016



# 2016 Federal Budget

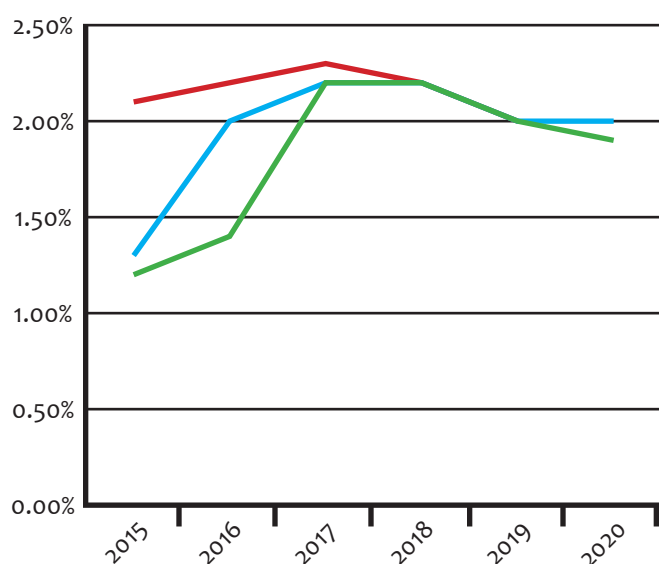


## Canada

According to private sector economists, real GDP growth of 1.4% is expected in 2016. This is lower than the 2.0% GDP growth rate projected in the 2015 Fall Update. Anticipated real GDP growth for 2017 and beyond remains consistent with the 2015 Fall Update.

Nominal GDP growth of 2.4% is forecasted for 2016, down from 4.2% as projected in the 2015 Fall Update. As a result, the projected nominal GDP was reduced by \$67B per year, on average, over the 2016–2020 period as compared to the 2015 Fall Update.

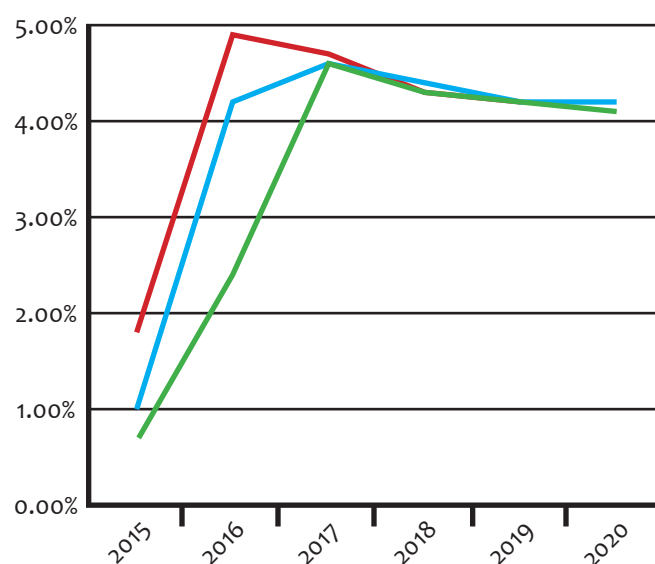
**Real GDP Growth**



Presented period to period at annual rates

	2015	2016	2017	2018	2019	2020	2016-2020
2015 Federal Budget	2.1%	2.2%	2.3%	2.2%	2.0%	---	---
2015 Fall Update	1.3%	2.0%	2.2%	2.2%	2.0%	2.0%	2.1%
2016 Federal Budget	1.2%	1.4%	2.2%	2.2%	2.0%	1.9%	1.9%

**Nominal GDP Growth**



Presented period to period at annual rates

	2015	2016	2017	2018	2019	2020	2016-2020
2015 Federal Budget	1.8%	4.9%	4.7%	4.3%	4.2%	---	---
2015 Fall Update	1.0%	4.2%	4.6%	4.4%	4.2%	4.2%	4.3%
2016 Federal Budget	0.7%	2.4%	4.6%	4.3%	4.2%	4.1%	3.9%

## Global

Slow growth is expected in the Eurozone throughout 2016 and 2017 as high levels of sovereign debt, weak balance sheets, and geopolitical uncertainty continue to pose significant risks. Growth in China is expected to continue declining modestly with increased corporate sector debt and years of strong investment posing risks of growth slowing more sharply than expected.

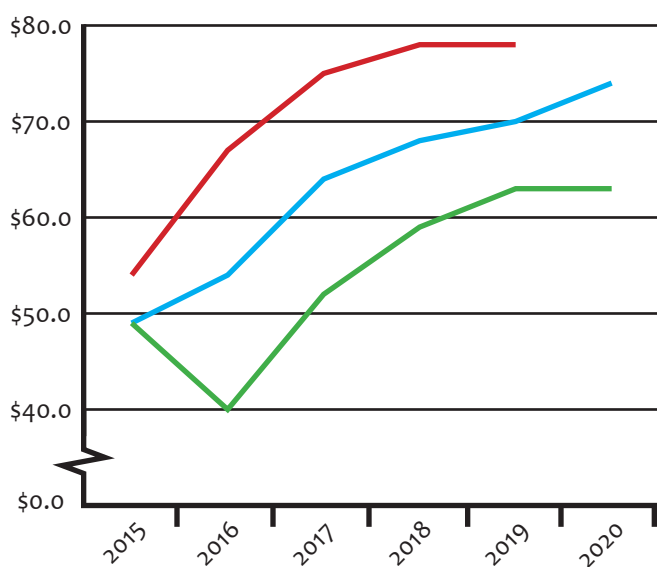
# Economic and Fiscal Projections



## Trade and Commodities

West Texas Intermediate (WTI) crude oil prices continued to fall in late 2015 and early 2016 and are expected to remain low at US\$40 per barrel on average in 2016 before rising to US\$63 per barrel by 2020. Low crude oil prices have led to lower GDP inflation estimates for 2016, to 1.0% as compared to 2.1% in the 2015 Fall Update.

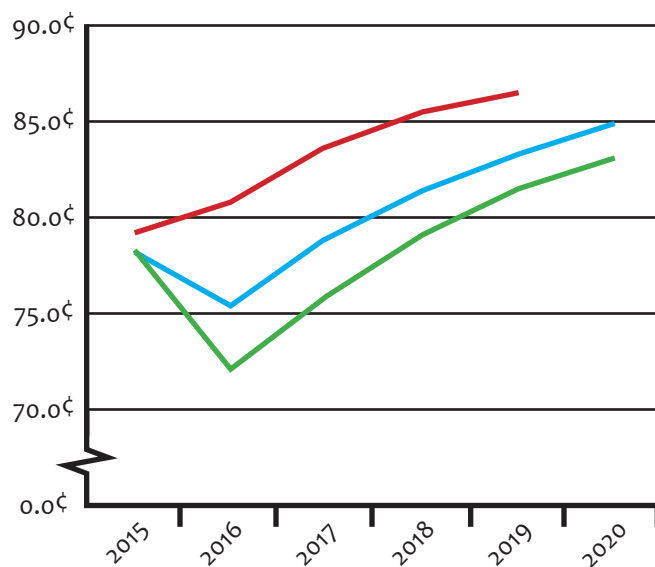
WTI Crude Oil Prices



Presented in USD per barrel

	2015	2016	2017	2018	2019	2020	2016-2020
2015 Federal Budget	\$54	\$67	\$75	\$78	\$78	---	---
2015 Fall Update	\$49	\$54	\$64	\$68	\$70	\$74	\$66
2016 Federal Budget	\$49	\$40	\$52	\$59	\$63	\$63	\$56

USD-CAD Exchange Rate



Presented in US cents per Canadian dollar

	2015	2016	2017	2018	2019	2020	2016-2020
2015 Federal Budget	79.2¢	80.8¢	83.6¢	85.5¢	86.5¢	---	---
2015 Fall Update	78.2¢	75.4¢	78.8¢	81.4¢	83.3¢	84.9¢	80.8¢
2016 Federal Budget	78.3¢	72.1¢	75.9¢	79.1¢	81.5¢	83.1¢	78.3¢

## United States

Steady real GDP growth of 2-2.5% is expected in the U.S. through to 2020 according to a survey of private-sector economists conducted in February 2016 by the U.S. Department of Finance. While a strong labour market and corporate/household balance sheets, as well as gradual housing market recovery, are expected to stimulate the U.S. economy, the average private-sector forecast was reduced from previous surveys in order to account for negative impacts on export volumes as a result of the increased U.S. dollar and weaker-than-expected global economic activity.

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# 2016 Provincial Budgets

## Summaries and Important Changes

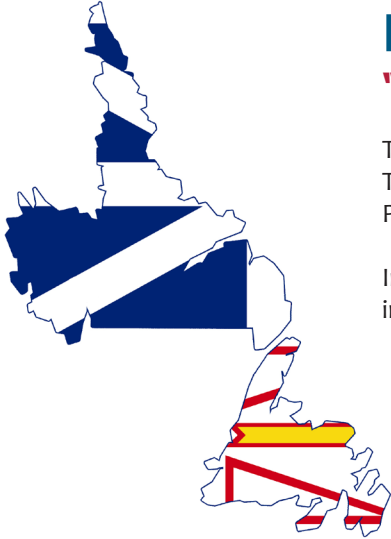
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**For up-to-date Budget Information, please visit:**

<http://www.northbridgeconsultants.com/newsletter/spring-2016-newsletter.php>

To ensure that you remain up to date on relevant information from all 2016-2017 provincial and territorial budgets, please visit our website as we will be updating the digital version of our newsletter as additional information becomes available.

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### Newfoundland and Labrador

#### "Restoring Fiscal Confidence and Accountability"

The Newfoundland and Labrador 2016 Budget included an increase to the general Corporate Income Tax rate from 14% to 15% retroactive to January 1, 2016. Additionally, the Manufacturing and Processing Profits tax credit has been eliminated as of January 1, 2016.

In addition to a \$8.5M investment in economic development and diversification, provincial investments in technology and expansion include:

- \$18.9M to the Research & Development Corporation for research and development opportunities;
- \$3.6M in funding for the Growing Forward 2 program to support innovation, market development, and competitiveness in the Canadian agriculture and agri-food industry; and
- \$2M for a new Seafood Innovation and Transition Program, supporting technology and innovation.



### Nova Scotia

#### "Working Together for a Stronger Nova Scotia"

Nova Scotia's 2016 Budget did not propose any changes to the general corporate tax rate of 16% or the small business tax rate of 3% with a \$350,000 small business limit. Provincial investments in growth and workforce development include the following:

- \$10M for the Nova Scotia Film & TV Production Incentive Fund;
- \$2.8M to the Aquaculture Growth Strategy for research and development, exports, and regulatory stability;
- \$3.5M to wineries and vineyards for research, market development, and support for vintners and quality certification;
- \$4.2M for offshore petroleum geoscience research/marketing and innovation in the forestry and tidal power/electricity industries; and
- \$5.1M for employers to provide co-op opportunities for students and summer jobs for youth.



### New Brunswick

#### "Foundation for Our Future"

As of April 1, 2016, the general corporate tax rate will increase from 12% to 14%, while the small business tax rate will decrease from 4% to 3.5%. No changes were proposed to other relevant tax items, such as the \$500,000 small business limit.

New Brunswick reported a deficit of \$466 million in 2015-2016, with a projected deficit of \$347 million for the upcoming year.



## Québec

### "The Québec Economic Plan"

The Government of Québec tabled its first balanced budget in 2016 after six consecutive years of deficits. No tax or rate increases were implemented and several corporate tax relief measures were introduced.

### Innovative Companies Deduction (ICD)

A new deduction was introduced to encourage manufacturing companies to develop and market products that include a patent protecting an invention developed as the result of SR&ED work. As of January 1, 2017, companies will be subject to a lower tax rate on the revenue attributed to that patent, with the rate decreasing from 11.8% to 4.0%.

### Tax Credit for the Integration of Information Technologies

Eligible small- and medium-sized companies can offset the cost of integrating information technologies with a 20% refundable tax credit for contracts awarded for the integration of a qualified management software package. Effective March 17, 2016, wholesale and retail trade companies will also be eligible for the tax credit, as will companies with consolidated paid-up capital of less than \$50M.



### Tax Credit for Major Digital Transformation Projects

The Government of Québec introduced a temporary refundable tax credit to support the implementation and maintenance of major digital transformation projects in Québec which will generate and maintain at least 500 new jobs over seven years. Eligible companies will be able to receive tax credits on up to 24% of eligible employee salaries for a maximum of \$20,000 per employee annually. This tax credit will apply to eligible digitization contracts that are entered into between March 17, 2016 and January 1, 2019.

## Ontario

### "Jobs for Today and Tomorrow"

The 2016 Ontario Budget has made significant reductions to innovation and research tax credits that will affect eligible project returns on costs incurred in taxation years ending on or after June 1, 2016:

- The Ontario Innovation Tax Credit (OITC) rate was reduced from 10% to 8%; and
- The Ontario Research and Development Tax Credit (ORDTC) rate was reduced from 4.5% to 3.5%.

These adjusted rates will be applied to all costs incurred after June 1. So, if your company has a December fiscal year end, eligible SR&ED expenditures incurred from January 1 to May 31 would qualify under the previous rates (10% and 4.5%), while eligible SR&ED expenditures incurred from June 1 onward would qualify under the adjusted rates.



### Sample SR&ED Calculation Using New Rates

	Enhanced* Return Rate	Enhanced* Return Rate Value	Basic Return Rate	Basic Return Rate Value
Ontario -- OITC	8.0%	\$80,000.00	-----	-----
Ontario -- ORDTC	3.5%	\$32,200.00	3.5%	\$35,000.00
Federal -- ITC	35.0%	\$310,730.00	15.0%	\$144,750.00
<b>Total SR&amp;ED Benefit for You</b>	<b>~42.3%</b>	<b>\$422,930.00</b>	<b>~18.0%</b>	<b>\$179,750.00</b>

Sample calculated based on \$1,000,000 in SR&ED-eligible expenditures; rates are applied sequentially.

\*To qualify for the enhanced return rate, a company must be a Canadian Controlled Private Corporation (CCPC), be below the Small Business Limit (less than \$500,000 of taxable income), and be below the Taxable Capital Limit (less than \$10M of taxable capital).



## Alberta

### "The Alberta Jobs Plan"

Alberta's 2016 Budget did not propose any changes to the general corporate tax rate of 12%; however, the small business corporate income tax rate was reduced from 3% to 2% as of January 1, 2017, as part of municipal government efforts under the Climate Leadership Plan to compensate small businesses for the potential effects of the carbon levy. In addition to a \$10M investment to support regional economic development initiatives, provincial investments to support Alberta businesses over the next two years include the following:

- \$90M for the Alberta Investor Tax Credit to encourage investment in eligible Albertan SMEs;
- \$75M for a Capital Investment Tax Credit to support first-time acquisition of capital assets/property in value-added agriculture, manufacturing and processing, and tourism and culture sectors;
- \$25M for the Alberta Enterprise Corporation to stimulate innovation, growth and workforce development in focused areas such as clean technology;
- \$25M for attracting (\$5M) and supporting new businesses (\$10M), and expanding food processing opportunities (\$10M); and
- \$25M for apprenticeship and training.



## British Columbia

### "Balanced Budget 2016"

No tax or rate increases were implemented in the British Columbia 2016 budget. As such, the general corporate tax rate will remain at 11%, while the small business tax rate will remain at 2.5%. In addition, several corporate tax credits were amended as detailed below.

### Small Business Venture Capital Equity Tax Credit

The Small Business Venture Capital Tax Credit budget was increased by \$5M, of which \$3M will be for direct investments in eligible new corporations. This will allow up to \$17M annually in additional equity financing for qualifying corporations.

### Mining Exploration Tax Credit

The Mining Exploration Tax Credit was extended to the end of 2019. Companies that undertake mining exploration in the province can receive up to 20% of eligible B.C. mining exploration expenditures reimbursed as tax credits (or 30% if exploration is in the area affected by the mountain pine beetle).

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#### About Us:

NorthBridge Consultants has been assisting companies access government funding for over 20 years. As one of the largest independent government funding consulting firms in Canada, our objective is to maximize our clients' funding potential.

