

Funding for Innovation and Growth

Combining multiple funding sources creates a better competitive advantage

Linking multiple sources of direct and indirect government funding to finance your business objectives is essential to securing a competitive advantage because companies are continuously looking for ways to cut expenditures and maximize ROI.

In recent years, taking advantage of multiple government funding sources has become even more crucial to securing this competitive advantage because capital expenditures have been excluded from eligibility under the Scientific Research and Experimental Development (SR&ED) tax incentive program, and several new economic development funding programs have since been launched that include funding for capital equipment.

Direct funding is made available in the form of repayable loans and nonrepayable grants, which are limited in overall funding, while indirect funding is made available in the form of tax credits.

One of the most lucrative tax credits is the SR&ED program, which supports companies that are investing in R&D. It provides refundable and/or nonrefundable tax credits, based on a percentage of eligible costs, depending on company ownership structure and tax situation.

Direct and indirect funding sources can work together to provide financing for business advancement projects, including product development, export growth initiatives, capital equipment purchases, and facility expansions.

Supporting Innovation

To encourage Canadian companies to grow, Canadian provincial and federal governments work together to deliver funding programs that support innovation investments.

The SR&ED program provides reimbursement for R&D work conducted in Canada, while the Industrial Research Assistance Program (IRAP) has a broader scope, supporting both the development and commercialization of innovative, technology-driven new or improved products, services, or processes. Specifically, IRAP provides technical and business advisory services, including upfront funding for up to 75 per cent of eligible R&D expenditures.

SR&ED tax credits need to be applied for with the income tax return, after the completion of a fiscal year-end. IRAP, on the other hand, is ideal for companies that require funding for early-stage R&D and prototyping because applications have to be submitted and approved before the project begins.

Companies are allowed to apply for both IRAP and SR&ED as long as the funding that was received from IRAP is deducted from eligible SR&ED expenditures.

Integration of Advanced Technologies

Although the SR&ED program previously allowed businesses to claim capital equipment testing expenditures, changes to the program went into effect on Jan. 1, 2014, that eliminated capital equipment as an eligible cost. Government funds have since been reallocated to direct funding opportunities like the CME SMART program, Atlantic Innovation Fund (AIF), and the Western Innovation Initiative (WINN).

The CME SMART initiative promotes growth of manufacturers in Ontario by covering 35 per cent of eligible costs, up to a maximum of \$100,000, for projects related to integrating new and innovative technologies into products and processes with the goal of increasing global exports.

Meanwhile, the AIF offers conditionally repayable contributions to Atlantic Canadian companies for scientific/technical product, process, and service development and commercialization. AIF covers up to 75 per cent of eligible costs, to a maximum of \$3 million, for wages/salaries, capital costs, and operating expenses.

Small to medium-sized companies located in western Canada that are seeking to transition their innovative technologies (services, products, and processes) to the commercialization stage may be eligible for a repayable contribution from the WINN, which covers up to 50 per cent of eligible costs (including equipment and labour), to a maximum of \$3.5 million per project.

These programs allow businesses to apply for financing for capital investments along with their yearly SR&ED claim submissions. Capital investments not only enhance manufacturing capabilities, but any labour component of the process improvement may also be eligible for funding under the SR&ED program.

Business Expansion

If your companies is in Ontario and investing in existing operations to improve competitiveness or productivity, pursue new markets, or undergo business expansions involving the

introduction of new products or services, you may be eligible for nonrepayable funding under the Southwestern/Eastern Ontario Development Funds (SWODF/EODF).

These programs cover up to 15 per cent of eligible project expenditures, to a maximum of \$1.5 million, including equipment, facility retrofits/expansions, and other related project costs. A secured repayable loan of up to \$5 million in provincial support also is available for project investments of \$10 million-plus that create 50 or more jobs.

For companies in the Atlantic provinces, the Atlantic Canada Opportunities Agency (ACOA) provides interest-free loans of up to 50 per cent of eligible start-up, working capital, and capital costs of a new establishment, modernization, or expansion project. The ACOA also will fund up to 75 per cent of related operational costs such as training, studies, marketing, productivity improvement, quality assurance, and environmental management systems.

Once the expansion project is complete, your company may have an increased potential for development of new and improved products and processes, including eligible expenditures that can be claimed under the SR&ED program for costs already incurred. Combining these opportunities can provide a source of immediate and annual funding or tax savings that can then be reinvested back into innovation and growth.

Workforce Development

To address the needs of growing companies as well as to stimulate job creation in Canada, the federal government supports hiring and training of employees through federally funded programs such as the Information and Communication Technology Council (ICTC) CareerConnect program and the Canada Job Grant.

The ICTC CareerConnect program provides up to \$18,000 for the hiring of a recent postsecondary graduate in the information and communication technology (ICT) field. The Canada Job Grant supports businesses with a plan to train Canadians for an existing job or a better job through a maximum federal contribution of \$5,000 per person toward training at eligible institutions. By applying for hiring/training grants as well as filing SR&ED submissions, companies can claim a significant portion of eligible employees' salaries and optimize their return from multiple programs.

In addition to federally funded programs, provincial and territorial funding opportunities also are available to companies investing in workforce development.

By combining the federal and provincial/territorial portions of the Canada Job Grant, as well as the employer contribution portion, this grant can amount to \$15,000 or more per person.

Additional provincial training programs exist such as the Yves Landry fund in Ontario, which provides up to \$50,000 for training that supports new technology/processes and innovation. Projects eligible for this grant can directly or indirectly lead to an increased number of R&D employees and, thus, labour expenditures that may be claimable for SR&ED, in addition to enhancing employee capabilities and knowledge base for future SR&ED projects.

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