

ECONOMIC STIMULUS TOOLS TO KEEP CANADA'S RESEARCH-INTENSIVE EMERGING COMPANIES VIABLE

“Canada must translate knowledge into commercial applications that generate wealth for Canadians and support the quality of life we all want...”

- *Mobilizing Science and Technology to Canada's Advantage, Government of Canada*

Canada has invested billions of dollars in establishing the infrastructure for a globally competitive biotechnology industry. The federal government's *Mobilizing Science and Technology to Canada's Advantage* lays out a course to ensure continued prosperity. Canada's science and technology companies are the means to generate this wealth. But the majority of these companies are now struggling to raise the necessary operational funding to survive the recent economic crisis. If economic conditions do not improve in the very near future, many of these promising companies are likely to disappear within a year.

More emerging biotechnology firms than ever are operating with less than 6 months of cash: **70% of small, emerging companies have less than 1 year of cash.** Under normal circumstances, most of these companies would have secured private and public sector financing to move them to their next stage of commercial evolution. In Canada, there are now almost no financing sources available to provide short term access to the cash needed to keep our companies operating through these times.

Companies are forced to close product development programs and, in effect, cease operations, putting at risk thousands of direct and indirect jobs. BIOTECCanada calculates over 2,500 high skilled researchers and scientists have already been laid off. This number will increase to over 7,000 permanent cuts within a year if short-term financing cannot be obtained to bridge companies until the normal investment market reopens. Hundreds of promising new treatments and technologies are being shelved. Moreover, this short-term financing drought puts all of Canada's historical investment at risk.

BIOTECCanada urges the government to introduce economic stimulus measures that will provide immediate short term cash relief for science and technology companies and, for the long term, create new incentives for investment.

1. ***Sustain Research and Development: Allow a Bridge Loan Against Tax Losses***

In order to save the high-paying, research intensive jobs of Canada's innovation economy, the government should allow companies to accelerate the use of their tax assets.

Description: Allow companies to apply for a temporary loan program, providing them with a two-year no interest, no payment repayable financing equal to the value of accrued non-capital tax losses at current corporate tax rate. The proposal would have the following features:

- Funds must be reinvested in research & development expenses as defined by Canada Revenue Agency over the next two years.
- The amount loaned would be guaranteed by the Government of Canada, against the future uses of the losses (which are usable to pay down future taxable income).
- After the initial two year period, the loan would be amortised over three years and bear interest at a pre-defined rate.
- Restricted to emerging companies with revenues less than \$10 million or revenues less than R&D expenses.
- The loan will be capped at the lesser of \$20 million or twice a company's annual R&D expenditure.



2. **Stimulate Financing: Exempt New Investments in R&D Companies from Future Capital Gains**

To stimulate new investment into companies allowing them to continue commercialization of innovative research, the federal government should create a one-time incentive for new direct investments.

Description: Implement a capital gains exemption on all new direct investments in the next two years to all companies with Canadian headquarters investing in science & technology research here. The proposal would have the following features:

- No immediate cost to the government.
- Exemption from future capital gains would be limited to investments made in 2009 and 2010.
- Limited to new direct investments into Canadian headquartered companies conducting research and development in Canada.
- Creates an incentive for investment that waits for returns during the long development time of R&D companies.

The business of science and technology companies is research. Most companies invest 7 to 10 years in commercializing research and development. To stimulate continued investment over this time and keep research jobs and innovation in Canada, we must immediately create incentives for new investment into Canada's biotechnology companies.

3. **Support Domestic Jobs: Make simple changes to the SR&ED Tax Credit Program**

The refundable credits under the Scientific Research & Experimental Development (SR&ED) tax credit program offer globally competitive value to companies investing in research in Canada. However, the program's restriction on refundability to only Canadian Controlled Private Corporations limits its usefulness to support Canadian jobs today.

Description: Allow all emerging companies spending on research and development jobs in Canada to equally benefit under the program with refundable tax credits. The proposal would have the following features.

1. Eligibility thresholds for the credit remain unchanged - focus remains on emerging science and technology companies.
2. All companies spending in Canada would now be eligible for refundable credits (instead of continuing to use the current restriction that limits eligibility to only Canadian Controlled Private Companies).
3. If viable, the processing of refundable credits should occur quarterly rather than on an annual basis

Changing the eligibility to allow all companies doing research in Canada to benefit creates a competitive stimulus to support more domestic jobs and investment. According to Finance Canada the SR&ED credits generate more value for government than the program costs. Therefore, the marginal increase in costs to allow all companies to benefit from the credit would be offset by the return. Provincial SR&ED programs, such as those in Ontario and Alberta, make this recognition and do not limit refundable credits.

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