House of Commons
Chambre des communes
Canada

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

(•) **an organization** **Organization name:** Aerospace Industries Association of Canada

or

( ) **an individual** **Name:** _____

Topic: Small and medium-sized enterprises

*Recommendation 1: Please provide a short summary of your recommendation.

A fund of $5 million annually for 5 years be provided to fully implement key recommendations from the Emerson Report in the areas of research collaboration networks and implementation of a national aerospace supplier development initiative. These activities require on-going funding to ensure increased and effective participation of Canadian aerospace SMEs in the research networks and their successful positioning in the global supply chain.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$5 million -$9.9 million

5 or more years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Savings from the recent cuts in the SR&ED are to be redirected to the SME community. This proposal is a tangible way of getting R&D funding to the SME community and have them benefit from working directly with larger firms who provide the necessary leadership and mentoring in the areas of R&D and supply chain improvements necessary to position themselves successflly on the global aerospace supply chain.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Canadian aerospace SMEs, their employees and Canadian communities across Canada that benefit from the creation of strong aerospace hubs that are currently being enhanced by key policies and programs.
Canadian aerospace SMEs from all regions across Canada play a critical role in the Canadian aerospace industry eco-system. Their increased contribution as suppliers to larger firms in Canada and abroad will provide increased opportunities for creation of high-skilled jobs in Canadian communities.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Research Collaboration Networks will provide exceptional opportunities for young Canadians to train and do research with experienced workers and academia, in line with industry-led research priorities and increased IP that brings wealth to Canada. The proposed supplier development initiative will provide the industry with the necessary business improvement support, including managerial and personnel training to achieve global success. High skilled jobs, increased IP and more productive SMEs contribute extensively to the Canadian standard of living and economy.

Topic: Innovation and commercialization

Recommendation 2: Please provide a short summary of your recommendation.

It is recommended that total funding be provided to fully implement the recommendation from the Emerson Report that the Canadian Space Agency's technology development programs be raised by $10 million per year for each of the next three years, and that it be maintained at that level.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

$10 million-$99.9 million

5 or more years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Half of the recommended funding increase should come from a reallocation of savings achieved as a result of the tightening of SR&ED criteria, and half should be reallocated from CSA business lines that will be less active as a result of recommendations in the Emerson Report, including direct oversight of the space asset design and manufacturing process.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

The space sector is unique among industrial sectors. It intertwines industrial capacity with a country's strategic needs in security, communications and remote-sensing. It generates $3.4B in revenue of which $1.65B is generated through export sales. This initiative will support Companies working in the space sector, particularly small and medium sized enterprises. Academic institutions that work in partnership with space sector companies and their researchers and students will also benefit.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Government plays a critical part in fostering innovation through funding for R&D. Such support is particularly important in a sector like space, where competitive advantage and technological advantage are so closely intertwined. This funding will make Canadian space companies more competitive on a global scale and will result in increased employment for highly qualified personnel in science, technology, engineering and math; export sales; and tax income. Funding will provide increased opportunities for partnership between space companies and academic research institutions.

Topic: Innovation and commercialization

Recommendation 3: Please provide a short summary of your recommendation.

AIAC Supports the CME recommendation for the creation of a "swap" program whereby companies could trade their unused tax credits for government contributions for R&D related capital expenses, including buildings (new laboratories or expansion of existing ones) or Machinery and equipment used for R&D purpose. CME estimates that since 2001, Canadian companies (non-CCPCs) have accumulated $6.8 billion dollars in unused tax credits under the Scientific Research and Development Tax Credit (SR&ED).

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

≤$499,999

5 or more years

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The elimination of capital as an eligible expenditure under the SR&ED program creates a big gap in government's policy to support business R&D. According to the Department of Finance, the elimination of capital expenditures under the SR&ED program represents $45 million a year in tax savings for the government. CME recommends that the full envelope is being invested in this new SWAP program. However, given that these tax credits have been earned by companies and will eventually be claimed, the real cost for the federal government is $0.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Any company that has accumulated R&D tax credits in the past and that has carried them forward. More than 75% of the funds would go to manufacturing and ICT sector, given that they represent the majority of SR&ED claimants.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

By capping the contribution to 33% of total project costs, to a maximum of $5 million per project, the government could increase business expenditures in R&D by $135 million on an annual basis, just for capital. “In the case of new laboratories or R&D facilities, there would be further benefits beyond the initial R&D capital expenditures in terms of scientists employed and M&E acquired. CME estimates that this $45 million program alone could boost annual R&D expenditures of Canadian companies by 2.7% of total business R&D expenditures annually, at no additional cost for taxpayers.

Please use this page if you wish to provide more explanation about your recommendation(s).

*Please note that at least one recommendation must be provided