Hon. Wayne Easter, M.P. Malpeque
Chair, Standing Committee of Finance
House of Commons

6 August 2021

Chair and Members of the Standing Committee of Finance,

COVID-19 delivered an unprecedented hit to Canada's economy. By the time the federal government delivers the 2022 budget, the recovery will already be underway, but Canada will still need a strategic effort to manage the rapid pace of digital transformation and sustain growth for decades to come.

To achieve a meaningful economic recovery, the government should not just aim at recouping economic losses; we should also aspire to position Canada for long-term economic prosperity by taking an active and strategic approach to improving our country's competitiveness in the global economy.

Innovative, high-growth Canadian technology companies are bound to be the engines of future economic growth, driving jobs and prosperity. These companies have continued to grow even throughout the pandemic, and their success in the 21st century innovation economy means that they are best positioned for future growth. We need to embrace policies to support the growth of these companies, so they can scale globally for the benefit of the Canadian economy.

For years, innovation experts have said that one essential element for sustained regional growth is the presence of significant concentrations of 'scale-up' or 'anchor' companies. These companies are innovative, high-growth businesses whose ability to scale from millions to billions provide valuable returns to national economies not just in the form of high-paying jobs but in all the positive spillover effects such as investment and philanthropy. Without a strong base of domestic, high-growth companies in Canada, our economy will not have the critical public wealth necessary to pay down the hundreds of billions of dollars in deficit spending incurred during the pandemic.

To drive meaningful, sustained growth in the Canadian innovation economy, our overriding policy objective must focus on generating and controlling intellectual property and data assets for both the economic and non-economic benefit of the country. Canada can support growth in the economy of intangible assets by using a range of existing policy levers, including funding policies, marketplace frameworks, and new or reformed institutions.

Budget 2021 represents a monumental opportunity for the government to introduce a new policy vision that will lead Canada to a more prosperous future. On behalf of the membership of the Council of Canadian Innovators (CCI), we submit for your review a list of recommendations for Budget 2022 focused on positioning Canada for future success and prosperity in the 21st century knowledge-based economy.

Regards,
Dana O'Born

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CCI's 2022 Budget Recommendations

1. **Bolster IP generation in Canada by allowing IP-related costs for R&D to be recognized as eligible SR&ED expenses**

To capture the maximum economic benefit from private sector R&D, it is essential that research and development be converted into commercial assets. The Scientific Research and Experimental Development (SR&ED) tax program is vitally important to many innovative Canadian businesses, but currently does not recognize costs affiliated with filing, protecting, and defending IP as eligible costs under the program. This needs to change if we are to fulfill the objectives of the national IP Strategy launched in 2017. Budget 2022 should include changes to SR&ED that allow for costs associated with protecting and defending IP to be recognized as eligible expenses. These changes would send a powerful signal to businesses that generating IP through R&D is a fundamental component of the innovation process.

2. **Maximize the benefits of COVID-related R&D and address leakage of publicly funded IP by expanding Canada's IP Strategy**

Tax incentives like SR&ED will only deliver material, long-term value to Canada if the IP flowing from these investments continue to reside and be commercialized for the benefit of Canada.

The government should consider the following measures:

- Introducing a patent box regime that would see profits on revenue generated from Canadian-held patents taxed at a lower federal rate, reducing the incentive for high-growth Canadian firms to take their intellectual property outside of Canada for the realization of significant commercial benefits elsewhere.

- Requiring companies that receive government funding through programs like the Strategic Innovation Fund (SIF) or the Innovation Superclusters Initiative (ISI) to have comprehensive IP strategies for the generation, protection, and commercialization of IP.

- Implementing a payback clause for IP leaving the country when it is sold to foreign buyers, similar to the Israeli model: when IP generated through public investment in private sector R&D is expatriated, the seller must reimburse the taxpayer for its investment in that IP – often in multiples of the original investment — just as a private investor might expect.

- Restricting access to SR&ED for foreign companies unless the IP is held in Canada. The SR&ED tax incentive, and particularly its refundable portion, delivers material and long-term value to Canada only if and to the extent that the intellectual property flowing from the investment is situated in Canada such that our firms and our economy are then able to earn the benefits of the commercialization of the technology.

- Helping to commercialize publicly funded research in the national interest, similar to In-Q-Tel's Emerge program[1]. This program would include having experienced commercialization practitioners evaluate university research proposals on the front end and then connect them with other experienced commercializers in Canada to help start and scale that research from Canada versus requiring partnerships with foreign companies, which leads to well-documented IP leakage from Canada. This

[1] In-Q-Tel Emerge, https://www.iqt.org/emerge/

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would be particularly strategic for the government to consider when reviewing the security impacts of certain technologies (i.e., cyber, quantum, cleantech, healthtech, digital ID).

3. **Enhance Canada's cyber readiness and digital resiliency**

Canada is at the midterm point of its five-year National Cyber Strategy introduced in 2018, prompting an important opportunity to review the progress of the initial strategy and consider potential additions to reflect the impact of COVID-19 on Canada's cyber readiness and digital resiliency. Further, recent Executive Orders issued by the Biden Administration in the U.S. have focused on bolstering the growth and export of American-made cybersecurity companies and their products and services. A similar economic lens is required by the Government of Canada to ensure Canadian cybersecurity companies are supported by their national government in a marketplace heavily influenced by geopolitical forces. Specifically, Budget 2022 should ensure there are appropriate talent, capital, procurement, export, and R&D incentives available to high-growth cybersecurity companies in Canada.

4. **Ensure Canada remains competitive in its ability to recruit, retain, and reward workers in a new post-pandemic economy that is increasingly distributed, global, and digitally dependent.**

The shift to remote work during the pandemic has been profound and forced business leaders to adapt. Pandemic disruptions have also made it more challenging for Canadian companies to recruit and retain highly skilled workers. Over the past few months, we've been hearing from our members about how it's harder than ever to find the workers these companies need to grow. We're now seeing a shift to remote work that makes physical geography and national borders less important than ever before. Whereas Silicon Valley tech giants used to set up branch plant engineering hubs near Canada's top universities, now they're recruiting directly from Canadian home offices, kitchen islands and living room workspaces, no longer requiring talent to move to US or work in a local branch plant. This is having a direct impact on the ability of Canadian firms to compete and attract the highly skilled talent they need to scale globally.

Budget 2022 should ensure Canada remains a competitive in its ability to recruit, retain, and reward workers in a new post-pandemic economy that is increasingly distributed, global, and digitally dependent by:

a) **Establishing reliable pathways to Permanent Residency for high-growth company recruitment**

Budget 2022 should include improvements to the Global Talent Stream (GTS) to ensure a return to the 14-day processing time for applicants through the stream, and a dedicated support channel for GTS applicants looking to find out about wait times and delays. Further, the government should also introduce automatic pre-approvals for GTS work permit renewals which establish easier pathways for permanent residency (PR) helping to create more predictability for both the talent and companies who have recruited the talent internationally.

b) **Accelerating support for upskilling and re-skilling programs in Canada**

The government should continue to work with upskilling organizations like Palette[2] for strategies to help transition some workers in traditional sectors, such as retail, into high-demand areas of the economy, by expanding upskilling programs already funded through the government.

c) **Establishing a fund to support micro-credentials**

[2] https://paletteskills.org/

Canada should incentivize greater partnership between Canada's domestic technology leaders and our post-secondary institutions to create micro-credential programs that can be recognized by employers. Canada should examine how to financially help support and expand more of these important upskilling programs.

5. **Ensure Canada has a competitive personal and corporate tax regime that encourages high-growth domestic innovators to stay and build businesses in Canada**

Members of the Council of Canadian Innovators are committed to creating new tax revenues for our country. By growing fast and creating high-skill, high-paying jobs, our technology companies can and should be a major economic driver and an important new tax base. However, these companies compete in a global marketplace, and we cannot wish away the very real impacts of additional taxes on business competitiveness, especially in the global economy of today where moving or setting up new offices has never been easier.

We strongly advocate for government to take a *'do no harm'* approach to tax policy during the economic recovery and remain cognizant of the potential for unintended consequences. In particular, changes to income tax rates, capital gains tax policy, or employee stock options would make it harder for Canadian businesses to stay competitive in the global race for talent. For innovative technology companies, growing at breakneck speed often just means you're barely keeping up with global competitors, and employee compensation reflects an extremely tight and very global market for skilled workers.

For these reasons, it is vitally important for Canada to set competitive, predictable tax policies that encourage investment into business and emerging sectors. These policies should include:

- Competitive Angel Investor and Capital Gains Structures: By making investing easier and more rewarding in Canada, investors are more likely to take risks on innovative ideas and companies.

- Expanding the use of 'Flow-Through Shares' to the technology sector: Flow-through shares have helped to grow and establish Canada's mining and junior oil and gas sectors because of the timelines and commercialization uncertainties associated with such resource extraction projects. By allowing investors to realize deductions for expenses associated with certain research and development business activities, investors continued to invest in the R&D of the mining and natural resource sector, which helped Canada become home to more mining companies than any other country in the world. Similar long periods of research and development exist for the cleantech and life sciences industries, which have similar risk profiles as mining and natural resources.

- Recognizing the strategic role Employee Stock Ownership Programs (ESOPs) play in retaining highly skilled workers at fast growing firms: If Canada wants to be home to mature domestic technology companies, the government must develop policies and strategies that help companies attract and retain globally competitive talent. The government should ensure any proposed changes to ESOPs do not put Canadian high-growth firms at a disadvantage or hinder their ability to become large, global companies that contribute to our national prosperity.

6. **Action the results of Finance Canada's 2020 consultations on Consumer-Directed Finance and set a clear timeline towards legislation implementation accompanied by the designation of a government lead to shepherd the process**

CCI is calling for the immediate adoption of the recommendations of the open banking report, the setting of a clear timeline towards legislation implementation, and the appointment of a designated open banking czar to lead and shepherd the process. Further, we call on the government to develop an economic development strategy to support and build the fintech sector. The roadmap towards implementation is long — between 12 and 18 months away — and during this time the government will need to help build confidence in the fintech sector by partnering with fintechs for the provision of government services as it does with FIs.

7. **Modernize the Accelerated Investment Incentive to include advanced technology asset classes such as software, machine learning and artificial intelligence.**

The pandemic has changed the way Canadians do business, and our tax code must be updated to reflect the way businesses have also changed. The Accelerated Investment Incentive (AII) was established in 2018 to encourage more investment by businesses into capital assets and offer a tax deduction representing a capital asset's depreciation. While the Canadian Revenue Agency does recognize this tax advantage for a business's purchase of renewable technologies, advanced technology asset classes such as software, machine learning and artificial intelligence are not eligible for the same depreciation rates. The Accelerated Investment Incentive should be modernized to include software. This change would both drive digital adoption within the private sector while also supporting the economic growth of Canada's software-as-a-service (SaaS) companies.

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