

New Agenda for Achievement



Budget 2004

Building an
Innovative Economy
for the 21st Century

March 23, 2004



Canada^{ca}

“Canada is developing an environment in which ideas flowing from scientific discovery are being generated at an unprecedented rate. Now we must focus on bringing these ideas to market; to realizing their commercial potential. That is what will drive our economy forward, increasing investment and employment.”

Ralph Goodale, Minister of Finance
2004 Budget Speech

Introduction

With a resilient economy and strong fiscal base to build upon, Canada is uniquely positioned to benefit from the current global economic recovery.

Canada must continue to take action now to increase the competitiveness of Canadian business and ensure that we keep improving our standard of living.

Budget 2004 does this through a series of measures aimed at stimulating productivity by providing Canadian businesses and workers with the tools they need to build a 21st century economy, including:

- Increased support to commercialize the results of research conducted at Canada’s universities, hospitals and research facilities.
- Providing more funds to support venture capital financing, which will trigger additional private sector investments.
- Improving Canada’s tax system and making it more competitive, in particular through increases to capital cost allowance rates for information and communications technology assets.

Research and Innovation

Since balancing the budget in 1997–98, the Government of Canada has pursued a vigorous effort to fund research and innovation.

Funding dedicated to research and innovation has increased each year since that time—a cumulative increase of \$13 billion to 2004–05.

Budget 2004 builds on these efforts by boosting the Government's commitment in these crucial areas by adding:

- \$90 million annually to the budgets of Canada's three federal granting councils: the Canadian Institutes of Health Research, the Natural Sciences and Engineering Research Council of Canada, and the Social Sciences and Humanities Research Council of Canada.
 - \$20 million a year to help Canada's universities and research hospitals offset the indirect costs of research.
 - Reflecting the sale of Petro-Canada shares, the Government commits \$200 million to Sustainable Development Technology Canada (SDTC), an arm's length foundation that supports development and demonstration of environmental technologies, and a further \$800 million over the next seven years to support emerging environmental technologies.
 - \$60 million to Genome Canada to strengthen research in genomics, the study of the genetic code of people and other living things.
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Commercialization of Research

Budget 2004 builds on Canada's existing efforts to bring research discoveries to the marketplace. This process, known as commercialization, opens new markets, creates new jobs and improves the well being of Canadians through better products and services. This budget adds:

- \$50 million over five years to improve the capacity for commercialization at universities, hospitals and other research facilities.
- \$25 million over five years to support proposals by federal science-based departments and agencies aimed at improving their research commercialization activities.
- \$5 million per year to the Industrial Research Assistance Program (IRAP) to strengthen its support for the regional innovation initiatives sponsored by the National Research Council (NRC).

Venture Capital Financing

Budget 2004 takes steps to enhance access to venture capital financing, the lifeblood for new companies that are turning promising research into new products and services.

This will include \$270 million set aside for new investments in venture capital financing by the Business Development Bank of Canada (BDC) and the Farm Credit Corporation (FCC). Specifically:

- \$100 million for direct investment in new technologies to bring them to the next level of venture capital financing.
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- \$100 million to support the creation of specialized funds that will lever additional private equity investment in leading-edge technologies.
- \$50 million to invest directly in innovative start-up and early-stage companies to further support the commercialization of enabling technologies.
- \$20 million over two years to specifically provide venture capital financing for promising agriculture and agri-food companies.

When combined with private sector investments, the venture capital financing initiatives by the BDC and FCC are expected to lever a total of \$1 billion in new venture capital investment.

Support for Small Business

Canada's small business sector is a key source of innovative ideas, which translate into jobs. Budget 2004 provides additional support by:

- Accelerating by one year the planned increase in the small business deduction limit—the amount of business income to which the lower 12-per-cent income tax rate applies—to \$300,000 by 2005;
- Removing an impediment that has prevented small businesses, in some circumstances, from fully accessing the 35 per cent refundable scientific research and experimental development (SR&ED) investment tax credit.

- Extending the non-capital loss carry-forward period to 10 years. This will be particularly beneficial for innovative, start-up small businesses, which may experience financial losses while developing new technologies and products.
- Implementing a new Government Electronic Tendering System (GETS) to provide fair, equal and less expensive access to all businesses in applying for government procurement opportunities.

Supporting Small Business

Recent budgets have introduced tax measures that promote entrepreneurship and small business. These include:

- Increasing the small business deduction limit to \$300,000 from \$200,000.
- Reducing the capital gains inclusion rate to one-half from three-quarters.
- As of 2004, eliminating the federal capital tax for smaller corporations.
- Creating and subsequently expanding a tax-free rollover on investment in small business shares.
- Increasing registered retirement savings plan (RRSP) limits from \$13,500 to \$15,500 in 2004 and to \$18,000 by 2006.

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- Committing the Government to work with small business groups to reduce the paper burden facing small businesses, including clarifying government information requirements for small business and eliminating unnecessary duplication.

Strengthening Canada's Business Advantage

Canada has the lowest business costs among 11 nations in North America, Europe and Asia-Pacific, according to the 2004 edition of *Competitive Alternatives* released by KPMG.

Budget 2004 introduces new initiatives aimed at strengthening this competitive advantage to position Canada as one of the best countries in the world to do business.

Capital Cost Allowance (CCA)

One of the key elements of a competitive tax system is the treatment of capital assets, including equipment needed to produce goods and services. The CCA system determines how much of the cost of a capital asset a business may deduct in a particular year.

Productivity and competitiveness is increased by using improved technology. This translates into greater demand for goods and services and more new jobs.

Recognizing this, Budget 2004:

- Increases the CCA rate for computer equipment to 45 per cent from 30 per cent.
- Raises the CCA rate for broadband, Internet and other data network infrastructure equipment to 30 per cent from 20 per cent.

These changes will bring the rate at which businesses can write off their investments in line with the useful lives of these assets.

Stronger, More Efficient Capital Markets

Ensuring that the regulation of Canada's capital markets is governed by sound and flexible policies is a key element of promoting our business advantage. With this in mind, Budget 2004 includes the following measures:

- Commits the Government of Canada to working with the provinces and territories towards the development of a single securities regulator to promote greater efficiency in Canada's capital markets.
 - The Government will seek views on how best to address any overlap in prudential, administrative and corporate services functions between the Office of the Superintendent of Financial Institutions and the Canada Deposit Insurance Corporation.
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The Canadian Tax Advantage

Large and medium-sized businesses: As of 2004, the average federal-provincial corporate tax rate in Canada, including capital taxes, is 2.3 percentage points lower than the average U.S. federal-state rate. By 2008, the federal capital tax will be eliminated.

Small businesses: Canada provides significantly lower corporate tax rates than the U.S. on income above US\$50,000 (about C\$65,000).

Research and Development (R&D): Canada provides a 20 per cent tax credit for all R&D expenditures, compared to the U.S. 20 per cent credit for incremental R&D only. Canada also provides a 35 per cent refundable tax credit to small business that has no equivalent in the U.S.



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