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## SR&ED Tax Credits in Alberta

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### Background

The Government of Alberta promotes research through the Alberta Ingenuity Fund, which awards grants and award programs to assist universities, colleges and industry to recruit researchers, to provide start-up support to new independent researchers at universities and colleges, to help students in their first year of graduate studies and to support groups of outstanding researchers with interdisciplinary scope and vision who work in areas of strategic importance to Alberta. However, Alberta does not have a tax mechanism in place to promote and encourage private sector research and development.

Alberta's long standing overall tax policy has been low rate broad based taxes. This has been one of the main reasons provided why Alberta does not have many focused tax incentives, including a provincial Scientific Research and Experimental Development ("SR&ED") tax credit.

As time has progressed however, 9 out of 10 provinces now have some form of provincial tax credit for SR&ED activities. We believe that this has put Alberta at a disadvantage to other provinces in attracting companies performing SR&ED. This has created an un-level playing field.

For the following reasons, the Edmonton Chamber of Commerce believes that an Alberta SR&ED tax credit is imperative:

The Alberta Science and Research Authority ("ASRA") have recognized that the technology sector is playing an increasing role in the Alberta business community. This sector however faces many barriers. The lack of a SR&ED tax credit is one factor that is effectively mitigating the "Alberta Advantage". If Alberta is to be a center for technological excellence then the province needs to encourage SR&ED. The ASRA's suggested solution is a provincial SR&ED credit.

The Alberta Tax Review Committee, almost 10 years ago, in its 1998 report recognized the need to level the playing field with other provinces providing SR&ED tax incentives. Since that time, all provinces except for Alberta have implemented some form of tax based SR&ED incentives.



Internationally, Canada is recognized as having one of the most generous tax incentives for SR&ED activities of all G7 nations. A simple search on the web reveals that the Canadian Embassy - Science and Technology Section in Germany have produced a paper discussing at length the SR&ED incentive system in Canada. It is very clear from reading the material that all provinces, except for Alberta have some form of tax based incentives for SR&ED activities. Alberta's lack of a program is a conspicuous exception.

While Alberta's low tax rates assist in reducing the cost of doing business in Alberta, a review of the after tax cost of performing SR&ED in other provinces is very telling. For large corporations, not eligible for the enhanced federal SR&ED tax credit system, the after tax cost of \$1,000 spent on SR&ED is as follows:

<b>Province</b>	<b>After-Tax Cost</b>	<b>Relative % to Alberta</b>
AB	\$489	-
BC	\$339	96%
SK	\$349	71%
MAN	\$305	62%
ONT	\$419	86%
QUE	\$392	80%

For Canadian Controlled Private Corporations eligible for the federal R&D tax credits the after tax cost of \$1,000 spent on R&D is as follows:

<b>Province</b>	<b>After-Tax Cost</b>	<b>Relative % to Alberta</b>
AB	\$410	-
BC	\$322	79%
SK	\$281	69%
MAN	\$247	60%
ONT	\$292	71%
QUE	\$217	53%

**Recommendations:**

That the Government of Alberta

- Introduce a R&D tax credit for companies performing prescribed R&D, as defined by the Federal Income Tax Act, to ensure that Alberta resident corporations can compete on a level playing field with other companies in Canada and in Alberta.

