

3. Appoint outside experts, reporting to the parliamentary committee overseeing each agent, to conduct periodic performance reviews of Agents of Parliament.
4. Amend the Federal Courts Act to allow for judicial review of interpretive guidance.
5. Include in the amendment of the Federal Courts Act an instruction to reviewing courts not to defer to the interpretation under review.

Restoring Canada's Innovation Competitiveness

DESCRIPTION

In a global economy where technology, innovation and capital investment are increasingly important, Canada trails most of its peer countries in innovation and research. The Government of Canada should act quickly to address this, particularly by restoring and simplifying the Scientific Research and Experimental Development (SR&ED) tax credit and working to create an environment that nurtures private sector investment in R & D and technology.

The SR&ED Program provides a refundable investment tax credit to eligible Canadian businesses conducting research and development work in the areas of science and technology. Each year, 20,000 businesses make SR&ED claims and the program is the largest research and development incentive program providing some \$3 billion annually in assistance.

BACKGROUND

Helping small and medium Canadian companies grow and succeed is one of the Canadian Chamber's 2019 federal election priorities.

Having Canadian businesses that are innovative by developing and applying new technologies is essential for success in a 21st century economy. In 2018, the Canadian Chamber of Commerce published 10 Ways to Build a Canada that Wins, outlining a 10-part strategy to support business growth and build a winning economy. The report stressed the importance of de-risking the development, adoption, commercialization, and production of new technologies and facilitating access to capital to do so.

Firms in Canada find it difficult to compete with those in the rest of the world on price, but they can compete on the basis of innovation. To do this, we need to be technologically-advanced and devote ourselves to research and development, but Canada is far from a leader in these fields.

The World Economic Forum ranks Canada as 22nd in capacity for innovation, 22nd in technological readiness, and 27th in company spending on R&D. Canada's R&D spending as a percentage of GDP has been declining for over a decade and is now 1.69%, compared to the OECD average of 2.4%. Business spending on R&D is near the bottom of all OECD countries.

Canada is the only developed country in the world with an intellectual property deficit. We spend more importing technology from other countries than we earn selling technology abroad. This gap costs \$4.5 billion a year.

Around 4% of Canadian small- and medium-sized businesses exported goods in 2017, although they represented more than 94% of all companies exporting and nearly 25% of total exports⁸⁴{1} This is a fraction of the 20%+ of SMEs in other G7 countries that export. In 2017, the Toronto Board of Trade stated that if Canada's SMEs exported at the same level as larger firms (23 %), \$225 billion would be added to our economy, equating (according to the Conference Board of Canada) to more than 2 million jobs. We need to focus on the closing of this gap between the Canadian SMEs (4%) and other G7 SMEs (20%+) exporting. One of the key drivers for companies to achieve growth in existing and new markets is innovation.

In the face of these developments, the cuts made to the SR&ED tax credit (from 20% to 15%) in 2014 must be reversed. The SR&ED program is the federal government's main R&D investment vehicle, and restoring it is the first step in restoring Canadian competitiveness in innovation. The shortfall is not being made up at the provincial/territorial level. In Ontario, the Ontario Research and Development Tax Credit was cut from 4.5% to 3.5% in the 2016 budget, and the Ontario Innovation Tax Credit from 10% to 8%. In 2014, Quebec's R&D tax credit rate was reduced from 37.5% to 30%.

Until 2014, companies could use the SR&ED Depreciable Property Tax Credit to invest in capital. This investment tax credit was 35 per cent up to a maximum of \$3 million. It was eliminated at the end of 2013 in the name of streamlining the program and removing some of its complexity. The SR&ED Program's other expense elements remained eligible (salary and wages, materials, overhead expenses and contract payments).

In the 3 years after the Depreciable Property Tax Credit was wound down (2014-17), \$95 million in support for capital investments was removed from the SR&ED Program .{2}⁸⁵ This is \$95 million no longer available to Canadian companies to assist them in investing in capital equipment to bring their innovations to reality and make them more competitive. A restoration of the Depreciable Property Tax Credit in the SR&ED program would provide Canadian SMEs with an additional way to reduce capex expenditure, and free up capital to allow SMEs to adopt innovation to lead to growth.

An example is a small business in Ontario, specializing in defence and counter-terrorism equipment, with over 80% of its revenues from global exports. It previously used the SR&ED Depreciable Property Tax Credit to help support the creation of a clean-room facility used for research and manufacturing of state-of-the-art sensors. This investment, supported by both the company and SR&ED, helped this business execute innovative technology development and improved the company's competitive position.

However, restoring the credit limit to 20% and reinstating the Depreciable Property Tax Credit are not the only adaptations required of the SR&ED Program. The Program must be made easier to use and access for employers of all sizes.

Canadian Chamber members report that the audit component of the SR&ED Program has become onerous and time-consuming, and that the uptake and efficiency of the program are hampered by overly frequent changes.

Federal budget documents since 2016 revealed the Government of Canada's intent to develop an innovation agenda that provides a pathway to commercialize research in the public sector and

⁸⁴ Innovation, Science and Economic Development Canada Small Business Branch Research and Analysis Directorate, Key Small Business Statistics, Ottawa, ON, January 2019, page 19 (43,415 of Canada's 1.17 million SMEs exported goods in 2017)

⁸⁵ 2012 Budget, Annex 4, Table A4.1, "Cost of Proposed Tax and Tariff Measures, Fiscal Costs (millions of dollars), page 380: <http://www.budget.gc.ca/2012/plan/pdf/Plan2012-eng.pdf>

encourage further research and development in the private sector. As chambers of commerce and boards of trade we look forward to the realization of this agenda.

References:

Government of Ontario, 2016 Ontario Budget – Chapter V

<http://www.fin.gov.on.ca/en/budget/ontariobudgets/2016/ch5a.html>

KPMG, Canadian Manufacturing Outlook 2014: Leveraging Opportunities, Embracing Growth, 2014.

OECD, Science, Technology and Industry Scoreboard 2015.

Standing Committee on Industry, Science and Technology, The Canadian Intellectual Property Regime – Dissenting Opinion of the New Democratic Party

SR&ED Education and Resources, SR&ED Gets Cut in the 2014-2015 Quebec Budget

<http://www.sreducation.ca/sred-funding-in-2014-quebec-budget/>

RECOMMENDATIONS

That the federal government:

1. Restore the SR&ED tax credit to 20%, as it was before 2014;
2. Reinstatement of the Scientific Research and Experimental Development Depreciable Property Tax Credit;
3. Simplify the process of the SR&ED application so that Canadian companies of all sizes can move forward with confidence to bring their innovations to market; and
4. Create an innovation environment that encourages private sector investment in R&D and technology.

The Risks of Cyber Crime — Electronic and Digital Issues

DESCRIPTION

From the individual consumer to large corporations, cybercrime has cost the Canadian economy up to \$3.12 billion dollars annually. The cost of protecting oneself and one's business from being detrimentally affected is escalating; as precious resources are used for security, it is a barrier to economic growth.

BACKGROUND

From the individual consumer to large corporations, cybercrime has cost the Canadian economy up to \$3.12 billion dollars annually. The cost of protecting oneself and one's business from being detrimentally affected is escalating; as precious resources are used for security, it is a barrier to economic growth.

Cybercrime is not a new phenomenon, but there is still a lot to learn in order to effectively respond to the threat. The nature of cybercrime continues to change faster than public institutions can fully understand them, regulate them and mobilize against them. For example, one of the most prolific and damaging cyber scams seen is the Business E-mail Compromise (BEC) scam which primarily targets businesses of various sizes and affects countries all over the world. Although the BEC scam is primarily a sophisticated social engineering scam, the BEC scam has cost victims over \$1 billion to date.

According to the National Cyber Security Alliance, one in five small businesses are hit by cybercrime annually. In 2013, cyber-attacks on small businesses rose 300% comprising 31% of all targeted attacks. Small businesses are particularly vulnerable without the resources to combat such attacks such as Remote Access Trojans used by criminals who were able to alter their online or payment terminals. On a larger scale, cyber criminals often target smaller business that have partnerships with larger organizations for the purpose of