

OCC TRANSITIONING TO A NEW ECONOMY AND REGIONAL ECONOMIC DEVELOPMENT POLICIES



2011 - 2012



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OCC TRANSITIONING TO THE NEW ECONOMY AND REGIONAL ECONOMIC DEVELOPMENT POLICIES: 2011-2012

INTRODUCTION

In an interconnected world where developing countries such as China and India have begun to effectively compete in areas such as manufacturing and IT services that were previously dominated by the developed world, Ontario needs to transition to the new economy by placing greater emphasis on becoming a hub for innovation and the development of new technologies. With a top-tier education system, the availability of a highly-skilled and professional workforce and government policy supporting innovation, Ontario has several competitive advantages in knowledge services. In order to further promote Ontario as a place to innovate and to attract more global firms to carry out their research and development (R&D) activities, we need to consolidate and build on these advantages.

There are several key steps the Ontario government must take to make Ontario one of the top places in the world to innovate. We need to ensure that adequate funding is available for all stages of innovation—from the initial research to the final commercialization phase. We also need to better integrate government R&D investments to ensure the fullest use of Ontario's significant R&D infrastructure. This should include opportunities for greater collaboration between private sector firms and research institutions in the broader public sector and ensuring greater access of private firms to the facilities and equipment within broader public sector organizations. We also need to encourage innovation through enhancing the Ontario Innovation Tax Credit which promotes R&D in Ontario and is especially geared to help small and medium-sized, Canadian-controlled private companies.

FUNDING SUPPORT FOR COMMERCIALIZATION OF NEW TECHNOLOGY

Currently, the Governments of Ontario and Canada invest considerable resources in R&D programs. However, these programs tend to focus on pure and applied research at the front-end of the innovation process, leaving a significant funding gap for the critical final stages of commercialization. Government funding for this end-stage of research varies depending on the technology or process being considered. Funding may be available for smaller-scale demonstrations (e.g., a single machine costing a few hundred thousand dollars) but not for larger projects (e.g., a demonstration plant costing several tens of millions of dollars). Often, the cost of detailed engineering and the development of accurate capital cost estimates to move a project from lab/pilot scale to a demonstration facility can cost more than \$1 million. This amount must be spent before approaching a commercial lender for financing. To address this funding gap and to ensure Ontario reaps the economic benefits of innovation within our province, the Government of Ontario must work with the federal government, financial institutions and innovation clusters to develop loan guarantees that fund the critical final commercialization stages of innovative projects (see *Funding Support for Commercialization of New Technology*, Appendix).

MAXIMIZING THE ECONOMIC BENEFITS OF ONTARIO'S R&D INFRASTRUCTURE

The Governments of Ontario and Canada invest significant resources in R&D programs in both the private and the broader public sectors. Government funding for R&D projects in the private sector focuses on boosting productivity and innovation, while investments in the broader public sector are geared towards the acquisition of cutting-edge machinery and equipment for research within academic and other research institutions. Despite significant levels of government funding for R&D projects in both the private sector and the broader public sector, there is no overall system to ensure the integration of these investments to maximize the economic benefits for Ontarians and Canadians.

Ontario's businesses favour greater collaboration between industry and academia to maximize the benefits of R&D for the province. This would help all innovative businesses in Ontario but would especially benefit small and medium-sized enterprises (SMEs). One of the perennial challenges for SMEs that want to test-drive innovative ideas is the inability to access the critical mass of facilities, equipment, machinery, technicians and researchers necessary to perform the rigorous testing, interpretation and verification required to move an innovative product or service quickly from the lab to the market.

Adopting a more integrated and collaborative approach will help boost the performance of private sector companies and enhance Ontario's competitiveness. To maximize the economic benefits of Ontario's R&D infrastructure, the Government of Ontario should adopt standardized guidelines that would allow private companies to access the physical R&D infrastructure of institutions within the broader public sector for commercial purposes on a fee-for-service basis when such resources are not required for their own educational or research purposes and would otherwise remain idle (see *Leveraging Ontario's R&D Infrastructure*, Appendix).

ENHANCING THE ONTARIO INNOVATION TAX CREDIT

The Ontario Innovation Tax Credit (OITC) provides a 10 percent refundable tax credit and is well-suited for a wide variety of industries. It is geared towards small and medium-sized, Canadian-controlled private companies conducting R&D activities in Ontario. The Government of Ontario should consider enhancing the OITC by increasing the credit from 10 percent to 25 percent of the first \$2 million in qualifying Scientific Research and Experimental Development expenditures in a tax year (see *Ontario Innovation Tax Credit*, Appendix).

FAIR GOVERNMENT GRANT FUNDING

The Government of Ontario oversees regional economic development and invests in communities across the province. The provincial government assists municipalities through a variety of financial mechanisms, including grants for specific projects. Many provincial government grant applications are awarded through a competitive process. Some grants limit the number and types of projects that qualify for funding while others are allocated on the basis of other factors, such as population base or whether projects are "ready to proceed."

In some cases, provincial grants are announced on short notice, forcing municipalities and organizations to divert staff time from other issues to meet the Ontario government's tight timelines to prepare an application and supporting material. Meeting the tight timelines and eligibility criteria of such grant programs can be particularly difficult for municipalities with comparatively few resources. In addition, certain qualification criteria, such as "ready to proceed" requirements, can create challenges for applicants that may have quality projects at an infancy or draft stage, but are shut out of the process at the very outset.

Ontario's grant funding for infrastructure and other projects should be developed on the basis of long-term strategic planning, sustainability and the best use of taxpayer dollars. Ad hoc grant programs should be kept to a minimum and, where they are necessary, the timing and criteria for such grants should be developed in a way that allows all municipalities, regardless of their resources, a meaningful opportunity to participate. To ensure fairness to all communities in Ontario, the Government of Ontario must revisit timeline qualification criteria to implement a funding model based on long-term strategic planning and allowing all municipalities a fair and meaningful opportunity to participate (see *Fair Government Grant Funding*, Appendix 1).

LAND USE PLANNING AND DEVELOPMENT – STRIKING A BALANCE BETWEEN THE PROVINCIAL FRAMEWORK AND LOCAL NEEDS

The Government of Ontario plays an important role in guiding growth and development in the province in a way that supports economic prosperity, protects the environment and helps communities achieve a high quality of life. The provincial government has responsibility for establishing a broad framework for land use planning and development. Having set the broad framework, the Ontario government should leave the details of local planning matters to municipalities and intervene only in exceptional cases where a municipality has acted in a manner that is inconsistent with the provincial framework. It is important that the proper balance be maintained between the needs of a broad provincial policy framework and the need to allow for proper implementation of that plan to accommodate unique local needs which respect the special context of individual municipalities.

Some municipalities believe that, with the implementation of the Growth Plan, the Government of Ontario is now beginning to cross into areas that are more appropriately the responsibility of local municipal governments. The implementation of the Growth Plan not only identifies growth areas but also allocates how much growth municipalities must accept. Rather than providing specific targets, the provincial government is now specifying the precise number of hectares that must be set aside to accommodate provincial growth projections. There are growing concerns that the Government of Ontario's approach fails to provide the flexibility required by municipalities to implement the provincial plan in a way that recognizes the specific needs and characteristics of each community.

To ensure a workable balance between implementing a province-wide framework and addressing local needs, the Government of Ontario must limit its role in long-term land use planning to broad strategies within a framework for development that looks ahead at least 30 years. The provincial government should also encourage municipalities to adopt plans that are based on a minimum 20-year planning horizon, subject to the adoption of appropriate intensification policies which could include implementation through the adoption of phasing policies. The Ontario government should also avoid interfering with decisions related to land allocation, distribution and use within municipalities (See *Land Use Planning and Development*, Appendix 1).

ACCOUNTABILITY OF SCHOOL BOARDS TO PROPERTY TAXPAYERS

Schools are one of the key components of a community's social infrastructure. Access to good schools is a key factor in the perceived desirability of a community as a place to live and affects both property values and the local economy. Taxpayers demand transparency and accountability from school boards and municipalities on decisions related to schools in their community, particularly decisions involving the closing of schools. School boards and municipal councils need to ensure that they work together on decisions regarding education infrastructure, so as not to undermine local economies.

Municipalities across Ontario have expressed growing frustration with the process used by school boards to make decisions about student accommodation and school closures. The Community Schools Alliance (CSA), a group of approximately 150 municipalities, has suggested that the current system for determining which schools stay open and which schools are closed is flawed. The CSA has called on the provincial government to implement a "smart moratorium" on disputed school closures citing the lack of meaningful consultation between school boards and municipalities and emphasizing the negative impact that school closures have on the affected community's property tax base and its socio-economic fabric.

The Government of Ontario should implement a process that allows municipalities to work with the Ministry of Education and school boards to develop policies that address the procedural concerns raised by the CSA. The Ontario government should also provide municipalities an appeal process if they believe a school board decision was not arrived at in accordance with legislation or the principles of natural justice (see *Accountability of School Boards to Property Taxpayers*, Appendix).

CONCLUSION

Ontario must build on its existing advantages to become one of the top innovation hubs in the world to transition Ontario to the new economy and to create high value-added jobs. While the Government of Ontario has already taken a number of steps to promote Ontario as a place to innovate, further steps must be taken to consolidate on these advantages. These include better funding for the critical commercialization phase of R&D so that the knowledge gained in the lab is brought into the physical world, better integration of government R&D investments to ensure the full use of the province's R&D infrastructure, greater private sector and broader public sector collaboration and enhanced tax credits to encourage innovation in the province.

The provincial government must also work collaboratively with municipalities on regional economic development issues. These include land use planning and development issues; the Ontario government must seek to strike an appropriate balance between the provincial framework and local/regional needs, ensuring fair access to provincial funding and ensuring procedural fairness in school board decisions regarding school and accommodation. Regional economic development only works where there is a partnership between the province and municipalities.

APPENDIX: POLICY RESOLUTIONS

Accountability of School Boards to Property Taxpayers

(approved May 1, 2010)

ISSUE

Currently there is a lack of transparency and accountability to the taxpayers between school boards and municipalities. This can have a negative impact on business and good municipal planning through property taxes and residential and non-residential development charges. School boards and municipal councils need to ensure they work together on decisions regarding education infrastructure, so as not to undermine local economies.

BACKGROUND

In May 2009, the Ontario Chamber of Commerce (OCC) urged the provincial government to accelerate its planned cuts to the Business Education Tax. Stating these cuts must result in real tax relief for Ontario businesses and go beyond revenue neutral adjustments to the Business Education Tax rates as a result of a Current Value Assessment and to implement a uniform Business Education Tax rate across the province. Alternatively, uniform Business Education Tax rates must be assessed on a regional basis, so as not to place neighbouring municipalities at a competitive disadvantage.

In May 2008, the OCC urged the government to mandate that municipalities lower the tax ratios for municipal business tax classes in relation to the tax rate of the residential property class to the prescribed range of fairness of 1 to 1.1 within the next seven years and to eliminate optional classes and limit properties classification to the list of property classes and sub-classes, as defined in Ontario Regulation 282/98.

These resolutions support a business case for economic and business competitiveness. However, the education portion of the property tax bill and education development charges are two areas of property tax that have flown under the radar screen and lack accountability and transparency to the taxpayer. These areas can be negatively impacted long term by the Ministry of Education Accommodation Review process used by the school boards across Ontario.

Education Property Taxes

The provincial government sets the education tax rate which is collected by municipalities and remitted to school boards. The province provides for a set base rate per student and the Ministry tops up the amount where necessary. In most cases, the amount on the property tax bill ranges from 20 percent to 25 percent of the taxes.

Community Schools Alliance

In the summer of 2009, frustrated with the process used by Ontario's school boards to make decisions about student accommodation, including decisions to close schools, the Community Schools Alliance (CSA) was formed by municipal leaders from across Ontario. By January 2010, over 150 of Ontario's municipalities have joined the CSA and the number continues to grow. Many of the municipalities from across Ontario have written to the provincial government (the Premier and the Minister of Education) calling for a "smart moratorium".

The CSA united municipalities across the province behind the common cause of obtaining a 'smart moratorium' on disputed school closures citing the negative impact that school closures were having on their community's property tax base, development charges, and the socio-economic fabric, as there is a lack of meaningful consultation for these between School Boards and the municipalities.

The goal of the 'smart moratorium' is to provide time for the Ministry, school boards, and municipalities to work together to develop policies addressing issues, such as planning for declining enrolments, a mutually agreed upon Accommodation Review Committee (ARC) process, a review of funding to rural and small community schools, and establishing a working relationship between municipalities and school boards that provides transparency and accountability to the taxpayers where currently there is none.

The members of the CSA know that the current system for determining which schools stay open and which schools are closed is a flawed process and school boards are closing schools, amalgamating schools, and in some cases transporting students out of their community, and building new schools without reviewing the impact of these decisions on our communities and taxpayers, be it education development charges or property tax. Municipalities across Ontario are frustrated by the ARC process and the negative impact such decisions are having on sustainable municipal growth and municipal planning.

Ministry of Education Pupil Accommodation Guidelines outlines that the purpose of a review is to provide direction to school boards regarding public accommodation reviews undertaken to determine the future of a school or group of schools. The document outlines four factors and states the ARC's are encouraged to introduce other factors that could be used to reflect local circumstances and priorities that may help. Two particular bullets from the Ministry document are key areas municipalities and businesses need to be a part of during the process.

Value to the community:

- School grounds as green space and/or available for recreation
- School as a partner in other government initiatives in the community
- Value to the Local Economy
- Availability of training opportunities or partnerships with business
- Attracts or retains families in the community

As is the finding of the over 150 municipalities across Ontario, too often the ARC process required by the Education Act is treated merely as a formality by school boards who implement the predetermined outcomes recommended by their administrations without dialogue with the municipally planning departments and with little or no regard for process. There is no opportunity for communities to appeal these decisions to an outside authority. The process gives the school boards absolute power.

The CSA feels that a better system is needed and should:

- Ensure that school boards and municipal councils work together on decisions regarding education infrastructure
- Provide greater accountability for school board decisions
- Be developed through a review of the governance model for educational decisions, which must include an appeal process for accommodation decisions
- Respect and value the input of students, parents, the community, and the municipality in the ARC process

School Board decisions that fly in face of municipal planning can undermine the local economy.

RECOMMENDATIONS

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Implement a process on disputed school closings to provide the opportunity for municipalities to work together with the Ministry of Education, school boards and to develop policies addressing:
 - a. Transparency and accountability to the taxpayers between municipalities and school boards
 - b. A mutually agreed upon Accommodation Review committee process
 - c. Planning for declining enrolments
 - d. An appeals process for municipalities
2. Put in place a Standing Committee of the Legislature to review and report its observations, opinions, and recommendations on the report of the Auditor General relating to the disbursement of public money on the education system collected and disbursed from the property tax base

Fair Government Grant Funding

(approved May 7, 2011)

ISSUE

Municipalities and organizations of a range of size, agenda, population, land mass, and infrastructure requirements are offered provincial funding through grants. Improved timelines and qualification criteria are required to better meet the needs of all applicants.

BACKGROUND

Many provincial government grant applications are awarded through a competitive process. Some criteria limit the number and types of projects applied for while others are allocated on the basis of measures, such as population base or 'ready to proceed'. Such guidelines can create challenges for applicants that may have quality projects in infancy or draft stage, which do not meet the necessary measures.

At times, provincial grants are announced on short notice prompting a reactionary and time constrained procedure for local governments and organizations to submit applications with no reassurance of monetary outcome. This process can cause lost time and wages due to the administration burden on local governments and organizations.

In most cases, key projects, such as infrastructure, are still completed whether or not they receive grant funding. In such instances, the cost of projects is borne by local citizens and businesses, both of which are taxpayers.

An ad-hoc approach to grant applications does not promote long-term strategic planning, sustainability or best use of taxpayer dollars. The nature of applications does not always allow for a balanced and methodical business process or plan.

RECOMMENDATION

The Ontario Chamber of Commerce urges the Government of Ontario to:

Revisit timelines and the criteria qualifications required for local governments and organizations to submit grant applications. Attention should be paid to implementing a funding model based on long range asset management plans. In reviewing criteria, consideration should be given to a range of measures including the population served, the amount of infrastructure (e.g. bridges, kilometers of roads, water mains, sewers, etc.) and these should be based on proven asset management plans

Funding Support for Commercialization of New Technology

(approved May 1, 2010)

ISSUE

The potential for new jobs, through proven new technology is not being achieved in Ontario as gaps continue to exist to fund important final stages of commercialization development.

BACKGROUND

There is some government funding available for pure research and applied research. This funding can be applied for bench and pilot scale facilities/testing.

Depending on the technology or process being considered, funding for a demonstration plant (next step after pilot) may or may not be available. The large scale of a demonstration plant can act as a barrier to being approved for funding. Demonstration level funding is likely available for an innovative manufacturing process where the cost is limited, e.g. a single machine that costs a few hundred thousand dollars. Challenges arise in obtaining funding when it relates to the replacement of multi-billion dollar facilities.

A demonstration plant can cost several tens of millions of dollars. Proponents of large scale demonstration plants such as a new waste gasification to chemicals plant, the University of Western Ontario's bio-generator, a next generation bio-diesel plant or a next generation chemical pulp mill, will face significant challenges in bridging the gap between funding for a bench/pilot (which may be available) and funding for a demonstration plant.

All businesses that supply products or services to present day facilities could be affected. If Ontario does not replace present day, traditional technology facilities and these new technology facilities are built elsewhere in the world, the province will lose all of the support businesses and the work related to building the new facilities.

This is a broad based sector issue that includes a range of industries such as petrochemical, pulp & paper, mineral processing etc. and their potential replacements e.g. bio-fuels, chemicals/fuels from waste and innovative power generation technologies.

The first step in moving from a lab/pilot scale to a demonstration facility is to perform the detailed engineering to develop a commercially viable plant design and the detailed work required to prepare an accurate estimate of the capital cost of the facility. To do this could cost more than \$1 million. This level of information is required before the proponent can approach any 'commercial' funding bodies (bank, angel investor, larger company, etc).

The Ontario Innovation Demonstration fund covers 50 percent of eligible expenses to a maximum of \$4 million. This level of funding may be good support for a pilot scale plant. However, it does not provide sufficient funding to build a demonstration plant and the fund's existence is not well known.

RECOMMENDATIONS

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Work with the federal government, financial institutions and innovation clusters to develop loan guarantees that will fund:
 - a. The detailed engineering and cost estimating activities required to approach funding bodies
 - b. The assistance needed to assemble funding to actually build the demonstration or commercial plant
2. Expand the awareness of the Ontario Innovation Demonstration fund through area economic development offices

Land Use Planning and Development

(approved May 2, 2009)

ISSUE

The Government of Ontario has responsibility for establishing a broad framework for land use planning and development. However, lately, the province has been intervening too much in the details of local planning matters. It is important that the proper balance be maintained between the needs of a broad provincial policy framework and the need to allow for proper implementation of that plan to accommodate unique local needs, which respect the special context of individual municipalities.

BACKGROUND

Traditionally, the Province has assumed an important role in land use planning and development through the guidance and direction on broad planning-related issues through such documents approved in the 1970s and 1980s, including the Parkway Belt West Plan, the Niagara Escarpment Plan, and more recently, through the approval of the Oakridge's Moraine Plan, the Greenbelt Plan, and the Growth Plan. These initiatives have been primarily focused on the GTA to deal with growth pressures competing with the protection of natural features and the need to establish a logical evolution in the development of distinct, identifiable communities.

With the implementation of the Growth Plan, the Province is now beginning to cross the line in controlling matters that more appropriately should remain the responsibility of local municipal governments. The implementation of the Plan not only identifies growth areas but also allocates how much growth municipalities must accept. Rather than providing specific targets, the Province is now dictating the precise number of hectares that have to be set aside to accommodate provincially driven growth projections.

This approach fails to recognize the specific needs and characteristics of each municipality. For example, it is assumed that each hectare of land has the same characteristics and the same potential to accommodate future growth. This neither takes into account land ownership patterns in some municipalities that hinder the land assembly required to accommodate new communities, nor does it take into account the presence of natural features, the ability to create new communities as opposed to extensions of existing subdivisions, and the extent to which natural physical boundaries already exist. The provincial approach does not even take into account the developability of land (i.e., pipelines and hydro corridors are included in net developable land calculations). This truly represents an unrealistic approach to community planning.

Clearly, these are local matters that do not have any broad provincial interest beyond their consistency with provincial growth directives and provincial infrastructure investment.

A 20-year time frame should be the minimum consideration for development for any community within the GTA. The possibility to consider growth options for 30 years or more is necessary to allow for the proper development of new communities, the planning and implementation of appropriate infrastructure, and to allow for the consideration of special the characteristics of each municipality.

Depending upon local circumstances, a more logical urban boundary could result in a longer build-out time. The appropriateness of the boundary should be determined more by the context of the local situation rather than a simple mathematical calculation.

On the other hand, when faced with a truly provincial issue, such as the Niagara-to-GTA corridor, it appears that the provincial government is taking a less active role and has backed away from the proactive strategy that is required to bring this project forward in a timely manner. This is a clear example of a legitimate provincial interest that requires greater provincial initiative to link the GTA with the Niagara Region and the U.S. border to take full advantage of the economic development potential of establishing greater connections to the U.S. border. This is consistent with the provision for the Places to Grow plan that recognizes the importance of cross-border trade with the U.S.

RECOMMENDATIONS

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Limit its role in long-term land use planning to adopt broad strategies and a framework for development for at least the next 30 years. These strategies should include accelerating the planning and implementation of the Niagara-to-GTA Corridor to take full advantage of future economic opportunities that would be created with this infrastructure
2. Encourage municipalities to adopt plans that are based on a minimum 20-year planning horizon, subject to the adoption of appropriate intensification policies which could include implementation through the adoption of phasing policies. Plans should be based on criteria which define a logical boundary for urban development based more upon local needs and opportunities than on mathematical land area calculations
3. Avoid interfering with land allocation or distribution of land areas or uses within municipalities

Leveraging Ontario's R&D Infrastructure *(approved May 7, 2011)*

ISSUE

The federal and provincial governments have invested considerable resources in research and development (R&D) programs and incentives in order to boost private sector productivity and contribution to innovation.

The federal and provincial governments have similarly invested considerable resources in acquiring cutting edge machinery and equipment to provide resources for research and innovation within academic and other research institutions. However, these resources are not integrated and have not yet translated into higher performance in the private sector on this critical determinant of competitiveness.

A more integrated and collaborative approach is needed to ensure that government R&D dollars promote innovation and restore Ontario's productivity to an internationally competitive level.

BACKGROUND

Ontario businesses are strongly in favour of greater collaboration between industry and academia in order to facilitate greater involvement in R&D. Colleges and universities, along with other publicly-funded institutions such as hospitals and research labs, are important seedbeds of creativity, knowledge, and cutting edge machinery and equipment, all of which are of vital importance to business in bringing innovative products and services to market.

One of the perennial challenges for small and medium-sized enterprises that want to test-drive innovative ideas is the inability to access the critical mass of facilities, equipment, machinery, technicians, and researchers necessary to perform the rigorous testing, interpretation, and verification required to bring a product to a competitive commercial stage.

Although the Ontario Center of Excellence co-ordinate and fund projects to facilitate greater industry-academic partnerships, Ontario has no standardized, province-wide procedures to facilitate commercial interactions between broader public sector (BPS) institutions and the private sector. Companies have very short time frames in which to get a product out of the lab and into the market place, and greater consistency and predictability in industry-academia transactions are key to making those partnerships profitable and sustainable for businesses and to realize the full potential of Ontario's research infrastructure.

Due to its top tier education system, Ontario has a natural competitive advantage in knowledge services. In order to entice more global firms to commercialize new technologies within Ontario borders, there is a need to take stock of our existing research capacity and build on our strengths as a province.

RECOMMENDATIONS

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Enhance industry access to physical R&D infrastructure through enacting standardized guidelines for federally and provincially funded academic and other research institutions, to provide private parties with access to their R&D resources for commercial purposes on a fee-for-service basis when such resources are not required for their own educational or research purposes and will otherwise remain idle
2. Adjust eligibility policies for applications for funding for major equipment infrastructure from academic and research institution to include industry access, to stimulate partnerships and industry – academia consortia (more than one industry partner), and with the full disclosure of operational issues associated with ownership, access, IP and sustainability be addressed
3. Establish a multi-user facility operation fund (from within existing funding envelope) that is only available to joint industry-academic proposals, allowing improved access and management of a facility to allow for all partners to derive benefit, further encouraging partnerships

Ontario Innovation Tax Credit

(approved May 2, 2009)

ISSUE

At a time when many companies in Ontario are facing challenges, Ontario should encourage Scientific Research and Experiment Development so that companies will pursue research and development.

BACKGROUND

The Ontario Innovation Tax Credit (OITC) is a 10 percent refundable tax credit for qualifying public and private corporations having a permanent establishment in Ontario. The OITC is calculated on qualifying expenditures (annual maximum of \$2 million) made in the taxation year for Scientific Research and Experimental Development (SR&ED) carried on in Ontario that are eligible for the federal investment tax credit under section 127 of the Income Tax Act (Canada). The credit is only available for SR&ED performed in Ontario.

This program is geared specifically towards small and medium-sized, Canadian Controlled Private Corporations conducting Research and Development (R&D) in Ontario and encompasses scientific research, applied and basic, with and without practical applications for the research, and experimental development of new products or processes. The refundable tax credit is phased out over taxable income between \$500,000 and \$800,000; which was recently increased in the 2009 provincial budget from \$400,000 to \$700,000.

The Ontario Innovation Tax Credit is a *refundable* tax credit that places funds directly in the pockets of companies pursuing product and process development above and beyond their taxes payable. The full credit is available in cash when no Ontario taxes are due. This tax credit is of greater value than a grant or subsidy as the qualifying criteria are established and rigorous. The credit works on a cost-recovery basis rather than an up-front sum, separating the serious innovators from the "tire kickers". It is well-suited for a wide variety of industries, non-discriminating towards forestry, manufacturing, biotech, industrial processes, environmental science, and other fields of science and technology.

Ontario stands to gain with financially stronger and healthier businesses that can attract financing in order to grow, create jobs to employ more Ontarians and pay more corporate taxes. The net gain for Ontario could be approximately \$250 to \$300 million.

An increase to the Ontario Innovation Tax Credit (OITC) can be made quickly within the established program framework. With the harmonization of federal and Ontario corporate income tax administration, the program administration costs are borne by Canada Revenue Agency. The provincial enhancement will go directly into the pockets of businesses that need it. An enhanced OITC may even attract companies doing R&D elsewhere in Canada to consider doing R&D in Ontario (e.g. Quebec has the best provincial SR&ED regime geared towards pharmaceutical companies, and the province has been very successful in attracting R&D investment).

RECOMMEDATION

The Ontario Chamber of Commerce urges the Government of Ontario to:

Immediately increase the Ontario Innovation Tax Credit to 25 percent of first \$2 million in qualifying Scientific Research and Experimental Development expenditures



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