

## **Backgrounder: Saskatchewan Commercial Innovation Incentive**

A Saskatchewan Party government will be the first jurisdiction in North America to introduce a lower tax rate specifically tied to the commercialization of patents and other qualifying intellectual property into new products.

Beginning in 2017, Saskatchewan will lower its general Corporate Income Tax rate from 12 per cent to 6 per cent on income earned from the commercialization of new products by Saskatchewan companies.

The Saskatchewan Commercial Innovation Incentive (SCII) is being introduced as a new growth tax incentive – the lower tax rate will apply to new products resulting from qualifying intellectual property such as patents that are commercialized in Saskatchewan.

The SCII, or patent box, will lower Saskatchewan's Corporate tax rate to six per cent for a period up to 10 years. The tax incentive will be extended to up to 15 years if the qualifying intellectual property was substantially developed in Saskatchewan.

Saskatchewan's patent box model will be available to all economic sectors. However, it should appeal to Saskatchewan's key economic strengths in agricultural biotech, manufacturing, energy and mining.

A re-elected Saskatchewan Party government will also provide a refundable tax component to the provincial Research and Development Tax Credit of up to 10% of eligible research spending (up to a maximum of \$100,000 per business annually) as the province's finances strengthen.

### **Background on the “Patent Box” Innovation Incentive**

As explained by Finn Poschmann, President and CEO of Atlantic Provinces Economic Council and former Vice-President of Research with the C.D. Howe Institute:

“One big new concept with massive economic potential is a tax policy option called a ‘patent box’ or ‘innovation box.’ An innovation box draws a line around business income. A “patent box” or “innovation box” draws a line around business income earned from developing and applying pure and applied research and other forms of intellectual property (IP), and taxes that income at a lower rate than the general corporate tax rate. It would reward firms for developing, owning and exploiting IP in their domestic activities. That means it rewards people who put their bright ideas to work”.

Current federal and provincial R&D tax credits promote research and development that can lead to new innovations that have commercial opportunities. However, the current system of tax credits has been less successful at translating these opportunities into commercial development and the resulting jobs and investment in Saskatchewan and Canada.

Jurisdictions outside North America have adopted the patent box model, including major industrialized nations like the UK and China. Saskatchewan's introduction of the patent box model will increase the after-tax return from commercializing innovation, with the resulting benefits of new investment and jobs from economic development and diversification.

The patent box model will also address the competitive challenges associated with the high mobility of intellectual property, which can be easily moved from the jurisdiction in which it was discovered to a low-tax jurisdiction for commercialization and production.

The patent box model has been recommended for consideration in Canada by various business organizations. The Canadian Chamber of Commerce, the Communications Technology Council and the Canadian Manufacturers and Exporters Association and the C.D. Howe Institute have all discussed how the adoption of the patent box model could contribute to economic growth and diversification in Canada.

The Canadian Manufacturers and Exporters recommended that:

“Adopt a Patent Box model in Canada”. “Over 90% of all the patents commercialized in Canada are done by manufacturing firms ... The government's science and technology policy and supporting programs should be modernized and improved to better support industry”.

#### Parameters for the Saskatchewan Commercial Innovation Incentive

In order to qualify for the lower innovation tax rate, the corporation must present to the Government a plan for commercializing the qualifying IP in the province that:

- Presents evidence that the product being commercialized is new or substantially transformed;
- Demonstrates a significant economic and fiscal return will accrue to Saskatchewan from the commercialization of the eligible IP; and
- Requires regular reporting with the provincial government confirming the “new growth” economic and fiscal benefits to Saskatchewan.

#### Consultations Prior to Introduction

Consultations will be held prior to finalizing the patent box design regarding:

- Extending eligibility of qualifying IP beyond registered patents;
- Extending eligibility of qualifying innovation beyond products to include processes; and
- Identifying potential opportunities to use the patent box model to encourage Saskatchewan's research and innovation sector.

## Research and Development Tax Credit

Smaller Saskatchewan-based research and development corporations deal with the financing challenges of moving beyond the prototype stage in the commercial development of innovation. During this stage, little or no corporate income tax is payable, meaning that the current non-refundable R&D Tax Credit isn't immediately helpful for these companies.

When the province's finances strengthen, a Saskatchewan Party government will introduce partial refundability of the R&D tax credit by providing a refundable tax credit on the first \$100,000 of R&D Tax Credits (10% of the first \$1 million in eligible R&D expenditures undertaken by the company).