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From: David Messier, Vice President, Public Affairs, Edelman

## Spurring innovation in the Ontario economy through tax credits: Ontario Liberals proposes to invest in R&D

On March 28, 2018, the Ontario Liberals tabled their [2018 Budget](#). Immediately following, ITAC shared an Ontario Budget 2018 Highlights document that reviewed key initiatives, including: increased funding for Artificial Intelligence (AI) and cyber security initiatives; the creation of an Ontario-based data strategy; and the expansion of broadband in rural and northern communities. Two other key areas of interest to ITAC members that were not addressed in detail were additions to the Ontario Research and Development (R&D) Tax Credits, and the Ontario Innovation Tax Credit – both of which were given substantial boosts.

Provincial R&D tax credits vary by province – ranging from 20 per cent in Manitoba, 15 per cent across the Maritimes to 10 per cent in BC, Alberta and Saskatchewan. Ontario has long lagged behind other provinces in the amount of R&D tax support it offers to businesses. Prior to 2016, Ontario had a 4.5 per cent credit for all businesses – though the Ontario R&D Tax Credit (ORDTC) program – and a 10 per cent credit for SMEs through the Ontario Innovation Tax Credit (OITC) program. In 2016, these programs were cut to 3.5 per cent and eight per cent respectively, in favour of the government providing direct funding to research bodies including the Perimeter Institute for Theoretical Physics.

In the two years since this cut, ITAC has lobbied the Government of Ontario through submissions and meetings with key decision makers to restore R&D support for Ontario innovators. The enhancements announced in Budget 2018 are certainly a win for the ITAC community.

The revised R&D funding framework provide companies with additional tax credit support on a sliding scale in proportion to the size of the company and the value of the activities they are undertaking.

Specifics on each program are outlined below.

### Ontario Research and Development Tax Credits (ORDTC)

The ORDTC is a 3.5 per cent non-refundable tax credit on eligible R&D expenditures. Effective for eligible R&D expenditures incurred on or after March 28, 2018, companies that qualify for the ORDTC would be eligible for an enhanced rate of 5.5 per cent on expenditures over \$1 million in a taxation year. The \$1 million threshold would be prorated for short taxation years.

## The Ontario Innovation Tax Credit (OITC)

The Ontario Innovation Tax Credit (OITC) is an eight per cent refundable tax credit for small to medium-sized companies. For eligible R&D expenditures incurred on or after March 28, 2018, if a company qualifies for the OITC and has a ratio of R&D expenditures to gross revenues that is:

- 10 per cent or less, the company would remain eligible for the OITC at the **eight per cent rate**;
- Between 10 per cent and 20 per cent, the company would be eligible for an enhanced OITC rate that would increase **from eight per cent to 12 per cent** on a straight-line basis as the company's ratio of R&D expenditures to gross revenue increases from 10 per cent to 20 per cent; and
- 20 per cent and above, the company would be eligible for the OITC at a **12 per cent rate**.

For the purposes of this calculation, both the gross revenues and R&D expenditures must be attributable to Ontario operations

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To read the full 2018 Budget, [click here](#).

If you did not receive the full *Ontario Budget Highlights* document, and would like to, please contact Janet Gibson Eichner, Director, Communications, ITAC at [jgibson\\_eichner@itac.ca](mailto:jgibson_eichner@itac.ca)

In addition, *IT World Canada* also wrote about the Ontario Budget from a tech perspective. [Click here](#) to read the article.