

6 August 2020

Global Tax Alert

News from EY Americas Tax

Canada: Alberta announces Innovation Employment Grant to support R&D and reignite technology investment

EY Tax News Update: Global Edition

EY's Tax News Update: Global Edition is a free, personalized email subscription service that allows you to receive EY Global Tax Alerts, newsletters, events, and thought leadership published across all areas of tax. Access information about the tool and registration [here](#).

EY Americas Tax

EY Americas Tax brings together the experience and perspectives of over 10,000 tax professionals across the region to help clients address administrative, legislative and regulatory opportunities and challenges in the 33 countries that comprise the Americas region of the global EY organization. Access more information [here](#).

Executive summary

On 22 July 2020, Alberta premier Jason Kenney [announced](#) the launch of the Innovation Employment Grant (IEG) set to come into effect on 1 January 2021. The IEG will provide grants worth up to 20% of a company's research and development (R&D) costs incurred in [Alberta](#). Supporting legislation will be introduced in the fall of 2020. Qualifying corporations will receive an 8% grant for their baseline R&D costs and an additional 20% grant on any incremental spending above the baseline up to a maximum of CA\$4 million¹ in annual R&D expenditures (see below).

Detailed discussion

Background

Alberta-based companies with active R&D programs have historically benefited from several federal and provincial funding programs, notably the federal scientific research and experimental development (SR&ED) program. For 10 years prior to 2020, Alberta offered a 10% refundable credit up to an annual maximum of \$400k, regardless of the taxable position or size of claimants. This program made the province attractive and the support impactful to a full spectrum of innovative companies, from small technology start-ups to large resource firms.

In the 2019 provincial budget released in October 2019, Alberta's finance minister announced that the province was cancelling its SR&ED support effective 1 January 2020.² This step coincided with the elimination of four additional targeted business tax credits (including the Alberta Investment Tax Credit) in favor of the Job Creation Tax Cut – a stepped reduction in the provincial corporate tax rate from 12% to 8%. Motivation for these changes was apparently rooted in the Government's objective to "level the playing field for all job creators, rather than a select few."³ This decision had a significant impact on the tech sector, where many start-ups cannot take advantage of low corporate tax rates if they are unprofitable during their early stages, a period when their greatest R&D investment typically takes place.

Responding to feedback received from stakeholders throughout the innovation space, the province assembled a working group⁴ to, among other things, suggest funding alternatives to the cancelled Alberta SR&ED tax credits. In part, it was recommendations of this group that led to the creation of Alberta's IEG.

Innovation Employment Grant

Though distinct from the Alberta SR&ED tax credit it was designed to replace, the IEG will utilize the same qualifying criteria required for qualifying expenditures under the federal SR&ED program and will use qualifying SR&ED expenditures as the basis for IEG calculations. Finally, the grant will provide benefits on up to \$4 million in annual R&D spending.

A distinguishing feature of the IEG is the concept of baseline spend, which will be calculated as the average R&D spend over the previous two years. Consequently, innovative start-ups will be able to immediately access the 20% grant, something the Government is confident will re-invigorate investment in the province and help further promote economic diversification.

The IEG is focused on small and medium-sized entities, as it will be phased out for entities with between \$10 million and \$50 million of taxable capital.

Representative calculations

A start-up company with qualifying R&D expenditures of \$200,000 will receive a \$40,000 grant through the IEG. Provided it increases its R&D spend to \$500,000 in the subsequent year, it will receive a \$88,000 IEG grant. If it maintains its R&D spend at \$500,000 in year three, its IEG support will drop to \$58,000. These calculations are illustrated below.

	Current year R&D spend	Baseline R&D spend (prior two yr avg R&D spend)	Grant amount at 8% baseline rate	Amount for 20% rate calculation	Grant amount at 20% rate	Total IEG support
Year 1	\$200,000	\$0	\$0	\$200,000	\$40,000	\$40,000
Year 2	\$500,000	\$100,000	\$8,000	\$400,000	\$80,000	\$88,000
Year 3	\$500,000	\$350,000	\$28,000	\$150,000	\$30,000	\$58,000

Note - the details of the IEG presented in this Tax Alert are based on the announcement. As such, they are preliminary and subject to change based on the Alberta Government's ongoing consultations with stakeholders.

Implications

This announcement of a new incentive program for Alberta is designed to instigate a return to technology investment as the province actively seeks to foster economic diversification. The IEG represents a key element of Alberta's [Recovery Plan](#), and while it does appear to target start-ups, it will also benefit existing firms that have previously been subscribers to the federal SR&ED tax incentive program that meet the tests outlined above. Although further details will be announced in fall 2020, the initial announcement suggests that the IEG will complement the federal SR&ED program and allow companies that qualify for the IEG to utilize existing claiming strategies and providers to access the grant. Along with the recent [announcement](#) by Alberta that it has accelerated the timeline of the Job Creation Tax Cut by 1.5 years to set the corporate tax rate at 8% as of 1 July 2020, the introduction of the IEG should improve Alberta's national competitiveness and is welcome news for all companies currently engaged in, or planning to engage in, R&D in the province.

Endnotes

1. Currency references in this Alert are to the CA\$.
2. See EY Global Tax Alert, [Canada: Alberta issues budget 2019-20](#), dated 28 October 2019.
3. <https://www.alberta.ca/tax-plan.aspx>.
4. <https://open.alberta.ca/publications/innovation-capital-working-group-report-and-recommendations>.

For additional information with respect to this Alert, please contact the following:

Ernst & Young LLP (Canada), Calgary

- ▶ Korey Conroy korey.conroy@ca.ey.com
- ▶ Dean Radomsky dean.w.radomsky@ca.ey.com

Ernst & Young LLP (Canada), Saskatoon

- ▶ Dean Anderson dean.anderson@ca.ey.com

Ernst & Young LLP (Canada), Edmonton

- ▶ Navid Hemmati navid.hemmati@ca.ey.com

Ernst & Young LLP (Canada), Vancouver

- ▶ Kevin Eck kevin.eck@ca.ey.com

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

EY Americas Tax

© 2020 EYGM Limited.
All Rights Reserved.

EYG no. 005470-20Gbl

1508-1600216 NY
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com