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Director General
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Department of Finance Canada
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Via email: SRED-PB-RSDE-RPB@fin.gc.ca

Re: CME's comments on Creating a Patent Box Regime

On behalf of Canadian Manufacturers & Exporters (CME) and our member companies from across Canada, we are pleased to provide our comments with you on the federal government's consultation regarding the potential adoption of a patent box regime.

The manufacturing sector is a key pillar of Canada's economy, playing a crucial role in creating jobs, fostering innovation, and driving economic growth. The nation's 90,000 manufacturers directly generate 10 per cent of Canada's real gross domestic product (GDP), make up one-quarter of its business research and development spending, and account for 60 per cent of the country's outbound goods. Taken together, the sector's direct, indirect and induced impacts amount to 27.5 per cent of Canada's total economic activity. In addition, by employing 1.79 million Canadians and supporting 3.43 million more jobs through supply chain activity and employee spending, the manufacturing industry undoubtedly makes substantial contributions to all communities across Canada.

The review of the SR&ED program in tandem with deliberations on a patent box regime comes at a necessary time, as Canada suffers from a low rate of business R&D spending, which is one of a number of critical factors holding back our ability to grow the economy and create jobs. Reversing this trend could be best accomplished by enhancing and reforming the Scientific Research and Experimental Development Tax Credit Program (SR&ED), one of the main mechanisms through which the federal government supports business R&D.

Improving the accessibility of the SR&ED program will increase growth and government revenues. A 2007 report by Finance Canada—[An Evaluation of the Federal Tax Credit for Scientific Research and Experimental Development](#)—stated clearly “that the SR&ED tax credit generates a net economic gain for Canada.” Section 2.1 of the report cites two studies that quantify the economic benefits of the program using the incrementality ratio, which measures the change in R&D spending per dollar of tax revenue foregone by the government due to the tax incentives. A 1997 Finance Canada and Revenue Canada study found an incrementality ratio of 1.38 using a survey approach. Similarly, Klassen, Pitman and Reed, in a

2004 econometric study of 58 Canadian firms between 1991 and 1997, estimated that one dollar of tax incentives stimulates \$1.30 in R&D.

CME has been a strong proponent of a patent box for many years. Patent box regimes incentivize domestic businesses to commercialize, invest in, and scale their R&D and operational activities and to attract foreign investment by creating a more competitive tax environment for innovation-focused industries. Perhaps more importantly, patent boxes disincentivize companies from moving IP out of a high-tax jurisdiction (like Canada) into other, more competitive ones. Introducing a patent box regime would remove the tax incentive for these high-growth Canadian firms to take their intellectual property outside of our borders and instead realize the significant commercial benefits here at home.

Indeed, patent boxes are growing in popularity as a tool to provide firms with an incentive to commercialize innovations in the local jurisdiction, which would generate more investment. Only two countries – France and Ireland – had patent box regimes until the early 2000s. But over 20 countries have some form of patent box regime today, including 14 in Europe alone, and other countries are exploring the possibility of introducing one.

Empirical research also supports patent box regimes. For example, a [2017 OECD study](#) found that lower corporate taxes, either in the form of a lower statutory rate or a preferential IP regime (patent box), are associated with more patent applications. In fact, it found that a 5 percentage-point cut in the preferential tax rate on patent income is associated with a 6 per cent increase in patent applications. This is consistent with prior studies that also find a significant influence of corporate taxation on the location of patents, intangible assets, and R&D investment.

Thank you for the opportunity to comment. As representatives of 1.8 million Canadians and 10 per cent of Canada's total economic activity, CME would be pleased to meet with you along with our member companies to provide our support, ideas, and insights as you review the patent box regime. Please do not hesitate to contact us if we can be of further assistance on this or any other issue.

Sincerely,



Alan Arcand
Chief Economist, National Policy
Canadian Manufacturers & Exporters