National Angel Organization

Innovation and Productivity Tax Credit (IPTC)
Issues Check List

8 January 2005

Tax Reduction

The IPTC is a tax credit so it provides an immediate reduction in taxes. The credit is available to all Canadian's who make direct investments in eligible companies, whether it is a neighbour or a relative's eligible startup or a university spin off. With the quick payback for the government as shown in other jurisdictions like B.C. the IPTC can help contribute to the treasury and reduce overall taxation.

Commercialization and Access to Capital

Although Canada enjoys excellent large capital markets and reasonable access to venture capital, less than 1% of the companies in Canada were started with venture capital. Founder and individual investment are the primary source of new company funding. The Global Entrepreneurship Monitor (GEM) Canada 2002 study revealed that the USA has 53% more angel investors per capita than Canada (3.2% vs. 4.9%). The study's authors found this surprising given the fact that Canada fared well in every other indicator of entrepreneurial activity. The lack of individual investors is a critical bottleneck in Canada's commercialization strategy. The IPTC will mobilize an army of individual investors who will bring capital and expertise to new companies. The government must act now to break the bottleneck between its $9 billion spent on R&D and the commercialization of that technology. In 2004 there was only $32 million invested by venture capitalists in seed funding. The most effective way to get a meaningful return on the country's investment is to increase individual investment.

Special Interest Groups

The IPTC is non-sector specific. The IPTC is an excellent way to answer the requests of many groups for early stage funding. One program can meet the needs of a wide range of groups from biotech, tourism, and electronics to others. Banks, Venture Capital funds and institutions will all benefit from the creation of more companies needing their services and venture capital returns will increase.

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Abuse and Scandal

The IPTC is designed based on the lessons learned from flow through shares and Scientific Research and Development tax credits. It is designed to minimize opportunities for abuse and is working well in both the UK and BC. The program encourages individual tax payer direct investment and does not suffer from the visibility of other programs. Direct government grants, BDC, and Labour Sponsored funds all offer opportunities for high visibility in the press for losers. The IPTC is not dependent upon the government choosing winners and losers. It uses the free market system and lets individuals make their own decisions about what are good investments.

Federal Provincial Relations

The Federal government can improve federal provincial relations by allowing the provinces the flexibility of allocating budgets between labour sponsored funds and direct investment programs like the IPTC. With the federal government and provinces both revaluating the role of labour sponsored funds a combined budget will allow provinces to decide for themselves how much to allocate between the two. Increases in individual investor investment will result in more venture ready capital companies being formed and venture capital returns will improve. A combined program will allow provinces to tailor their programs between indirect and direct investment to meet the unique needs of their province.

Administrative Overhead and Costs

B.C. has demonstrated that the cost of running a direct investment program is very manageable. Developing a federal/provincial cost and services sharing program for the IPTC like the labour sponsored fund program can be very effective and efficient.

For additional information contact:

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