



Helping Agri-Food Processors Thrive Amid COVID-19

Food and beverage processors are faced with numerous challenges, from regulatory prerequisites for food safety to the continuing need for new product development to meet evolving lifestyle choices. Technological advancement is not only highly pertinent for processors – it has become a necessity to survive in the agri-food industry.

Coupled with the ongoing COVID-19 pandemic, food and beverage processors are facing increasing pressure to adapt to ensure the health and safety of workers without compromising production output. In addition, the current crisis has shown the federal government the absolute necessity of strengthening Canada's food supply capacity.

Declining R&D Investment

Despite the persistent need for technological advancements, agri-food businesses in Canada have reduced their investments in research and development (R&D) and technology adoption, according to a report published in 2018 on Canada's Agri-Food Economic Strategy Table.¹ The report shows that R&D expenditures as a percentage of sales in this sector have fallen by 24% since 2008 – Canada is surpassed in this sector by countries like the U.S. and France, which spend 0.5% of sales on R&D compared to Canada's 0.2%.

The food and beverage processing industry is Canada's largest manufacturing employer, with more than 246,000 people relying on its success. It also accounts for 2% of the national Gross Domestic Product (GDP). A thriving food and beverage processing industry can be a significant driver for economic growth in our country. With the goal of helping Canada become one of the top five competitors in the global agri-food sector, the Agri-Food Economic Strategy Table outlined the following targets:

- \$140 billion in domestic sales by 2025, a 27.3% increase from \$110 billion in 2017; and
- \$85 billion in exports by 2025, a 31.6% increase from \$64.6 billion in 2017.

Increasing Government Support

Achieving such targets will require strong investment in both R&D and automation. Ample government support is necessary to reach the kind of growth Canada is aiming for, given that 94% of agri-food processors in the country are small or medium-sized operations. In these challenging times, operations of this stature are also fighting to adapt their businesses to meet current supply chain needs. Through grant funding, with a new focus on providing emergency response for processors, accelerating capital cost allowance, and a continued commitment to

¹ Government of Canada, Report of Canada's Economic Strategy Tables: The Innovation and Competitiveness Imperative, Chapter 1, "Seizing opportunities for growth," and Chapter 3, "Agri-Food", September 2018.

the Scientific Research and Experimental Development (SR&ED) program, Canada is encouraging businesses to spend more on research, innovation and modernizing facilities and business models to reach its strategic economic targets.

For example, the government has announced emergency response funding to protect agri-food workers, given that many processors are facing the challenge of having to hire more workers to meet the increase in demand, but also to ensure that the appropriate safety measures are implemented. Ontario has committed up to \$15 million to help processing facilities purchase personal protective equipment (now commonly referred to as PPE) and implement workplace modifications, such as physical barriers. Recently, the federal government announced a \$77.5 million investment for food and beverage processors to make workplace adjustments, such as HVAC upgrades and the rental or purchase of portable buildings.

The Canadian Agricultural Partnership (CAP), which was established to support agricultural producers and processors in advancing their businesses, has also expanded to address the need to modernize certain business models, such as supporting the development of online business opportunities. The \$77.5-million federal announcement also includes repayable contributions for businesses to acquire automation equipment.

Outside of the COVID-19 emergency responses, grant funding to support business advancement continues to be made available. Projects to develop food safety and traceability systems and conduct late-stage research can potentially be subsidized by government funding through the CAP program. The 2018 Federal Fall Economic Statement also proposed to allow businesses to immediately write off the full cost of machinery and equipment used in the manufacturing and processing of goods.² Given that the spend on machinery and equipment as a percentage of sales has dropped from 2.3% to 1.2% since 1998, that's a much-needed tactic to encourage smaller businesses to invest.

The federal and provincial governments also have their eyes on increasing sales and exports for the agri-food sector. There are grant programs which support small- and medium-sized enterprises to support interprovincial and international market development. Activities such as market research and new market certifications can receive governmental support.

A Multi-pronged Approach

Canada also has continued its commitment to the SR&ED program, which plays a significant role in helping companies assume more technical risk. Last year, the federal government changed the guidelines to no longer use taxable income to determine a Canadian-controlled private corporation's annual expenditure limit for the enhanced refundable SR&ED investment tax credit of 35%. Starting in June 2019, companies with taxable capital of up to \$10 million will benefit from unreduced access to this tax credit, regardless of their taxable income.

Of course, these programs are just a part of the multi-pronged approach that Canada is taking to mitigate supply capacity concerns and close the gap on meeting aggressive targets. In the government incentives space alone, there are hundreds of federal and provincial grant programs for businesses across all sectors. A cursory look shows that the government is also prioritizing hiring youth – especially into science, technology, engineering and mathematics (STEM) based positions – and training employees to ensure Canada has a skilled workforce.

² Government of Canada, Fall Economic Statement 2018, Chapter 3, "Confidence in Canada's Economic Future – Accelerated Investment Incentive," November 2018.

Federal commitments to support the agri-food sector during the pandemic and to strengthen the sector for future success are closely tracked by Ryan. Our Government Grants practice is uniquely positioned to help our agri-food clients secure a wide range of funding. Our consultants are familiar with the shifting funding priorities of the government and understand the keys to securing grants. Our team also has a close partnership with Ryan's SR&ED consultants, who are experienced in all fields of science and engineering. With Ryan's expertise, agri-food processing clients can optimize their chances of securing available grant funding and SR&ED tax credits to grow their operations and strengthen their business.

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