

# **1 Institutional context**

The modern Canadian institutional context which is relevant to the Alberta Investor Tax Credit (AITC) includes two main pillars: the fiscal incentives of federal and provincial governments for research and development (R&D) expenditures by firms and individuals, and the legal intellectual property environment. I briefly review both in this section, and then discuss relevant details about the AITC policy.

Canada has been characterized as one of the most generous jurisdictions for R&D credits (McKenzie, 2008) as well as pioneer in their design (Mansfield & Switzer, 1985). In 1961, the federal government allowed companies to partially deduct R&D expenditures from federal taxable income. The tax incentive for R&D expenditure underwent several changes since 1962, taking the form of a full expenditure deduction plus a non-taxable tax credit by 1984. The cost of forgone revenue to the government went from C\$15 million to C\$ 100 million from 1962 to 1984.