# ATLANTIC GROWTH ROADMAP

ATLANTIC INVESTMENT BUBBLE

# STEP ONE: CREATING AN ATLANTIC INVESTMENT BUBBLE

Too many companies in Atlantic Canada – in technology, manufacturing, food and drink production and many other sectors – struggle to find capital during both their start-up and scale-up phases. Data shows that angel investment activity in Atlantic Canada is $3 per capita compared to the national average of $28 per capita. Atlantic Canada collectively has a smaller population than many Canadian cities, and well-intentioned provincial programs often fail to recognize the increasingly regional nature of our business community. This limits our economy, hampering job creation and investment in our entrepreneurs as well as negatively impacting tax revenues.

A working group of regional entrepreneurs, investors and business advocates have come together to identify pragmatic changes aimed at improving our region's workforce, boosting immigration, productivity and resilience, and providing increased access to capital. The intent is to create a common market across Atlantic Canada while respecting the primacy of provincial laws and regulations, building on the outstanding cooperation and collaboration of the four provincial governments during the height of the COVID-19 pandemic.

One result of the pandemic is the largest cash hoard in recorded history, with billions of additional dollars sitting in personal savings and in capital markets now seeking new investment opportunities. Time is a factor here – we need to move quickly to take advantage of this unprecedented opportunity. An immediate way for Atlantic Canada to capture a greater share of the pending investment boom and to increase its competitiveness more broadly is to create an "Atlantic Investment Bubble," a regional equity tax credit (ETC) that allows Atlantic Canadians to invest in a company outside their home province but within the region and receive a tax credit. This will incent the flow of investment between provinces.

Equity Tax Credits support individuals, companies and investment funds in making financial investments in high-growth potential firms. The four Atlantic provinces each have their own ETC program with varying degrees of tax credit available and, in some cases, limitations on the sectors available under the program. These are set on a provincial basis, meaning you only receive the tax credit if you invest in a company from your home province. The reality, however, is that Atlantic Canada's business community, particularly high growth companies, operate regionally, driven by the need to tap into larger markets as well as accessing a larger pool of skilled labour, mentors, vendors and investors.

Our working group proposes creating a common regional equity tax credit on investment from an Atlantic Canadian resident outside of their province of residence, with the program having the following parameters:

- 35 percent tax credit for individuals
- 15 percent tax credit for corporations
- Overlay existing provincial programs to minimize legislative and regulatory changes
- Managed by provincial governments
- Backstopped by the Government of Canada to a set amount each year so there is no cost to provincial governments
- Four-year pilot project to validate the concept

Creating a strong and innovative private sector in Atlantic Canada requires a supportive investment ecosystem. Each province administers its own equity tax credit program today with some of these programs limiting tax credits to specific industries. We believe this would be best for a regional equity tax credit and propose the inclusion of the following sectors:

- Advanced manufacturing and processing
- Aerospace and defence
- Bioscience
- Cultural industries
- Exports
- Food and beverage
- Information and communications technology
- Renewable energy and clean technology
- Tourism

We propose that this new regional equity tax credit be carefully measured to ensure it is achieving its goals. We are confident this analysis will demonstrate that the program is self-sustaining by driving increased labour spending and taxation revenue. That means it will not require long-term support from the federal government. The Atlantic Investment Bubble will lead directly to increased investment in the region, fueling growth in small and medium sized enterprises, creating jobs and generating new tax revenues.

## THE ATLANTIC INVESTMENT BUBBLE IS A WIN-WIN.

By creating the Atlantic Investment Bubble and implementing a regional equity tax credit program, we will create a common market for investment in the region. Companies, particularly SMEs, throughout Atlantic Canada will have access to greater levels of the region's capital and advisors fuelling their growth and creating new jobs, opportunities, and tax revenues. Investors will be incentivized to invest within the region. That means we can repatriate capital, including the billions of dollars currently on the sidelines, to Atlantic Canada that now often ends up in public markets in Toronto or New York. The Atlantic Investment Bubble will help us take greater control of our economic destiny.

Based on economic modelling performed by Atlantic Canadian economist Jupia Consulting, there is a strong case for the development of a regional equity tax credit. That case is further explored throughout the study included in the attached appendices.

Atlantic Canada has much to offer the world. Working together as a region, we can create a more robust environment for economic growth, starting first with the creation of the Atlantic Investment Bubble to drive increased levels of investment. The Atlantic Investment Bubble has the support of a growing number of business groups including the Atlantic Canada Chamber of Commerce, Conseil économique du Nouveau-Brunswick, New Brunswick Business Council and the Order of the Wallace McCain Institute.

There are, of course, details to work out. But with political will from the four provinces and the federal government, we believe a program can be put in place by April 1, 2022, that unlocks new capital for Atlantic Canadian entrepreneurs that will directly spur the creation of new jobs, economic growth and tax revenue.

ATLANTIC INVESTMENT BUBBLE

# APPENDICES

# APPENDIX A: CASE STUDY

## ATLANTIC CANADA NEEDS A SURGE OF NEW INVESTMENT. AN ATLANTIC CANADA INVESTOR TAX CREDIT PROGRAM SHOULD BE PART OF THE SOLUTION.

### Weak Economic and Population Growth

Since 2008, the economy across Atlantic Canada mostly stalled.[1] Economic growth as measured by real gross domestic product (GDP) has averaged only 0.6 percent since 2008 (Figure 1). In fact, after a 25-year period economic growth in Atlantic Canada was similar to the rest of Canada, since then it has been 65 percent below the national growth rate.

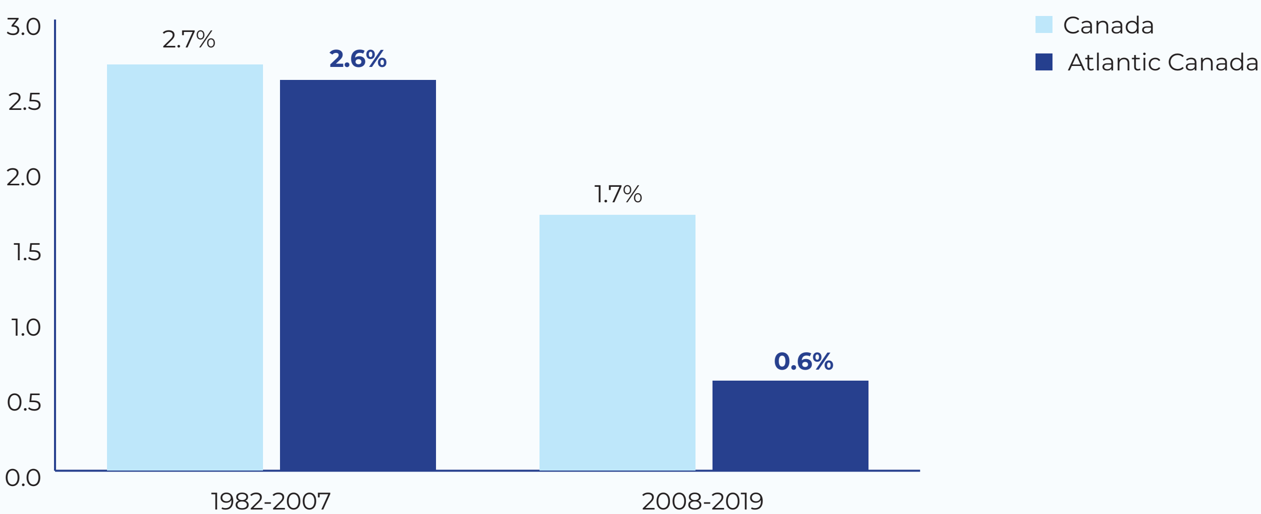
This is having many impacts on the economy.

For example, in New Brunswick, average annual Government of New Brunswick revenue growth dropped by 46 percent between the 2008-2009 and 2019-2020 timeframes, and the decade preceding this period. Three of the four Atlantic Provinces have seen government debt to GDP ratios rise since 2008 (even before the pandemic).

Between 2007 and 2020, Canada added 4.7 million to its population, a growth rate of a robust 14 percent. Atlantic Canada, by contrast added only 100,000. This has resulted in Atlantic Canada having a much older population and a looming workforce crisis. There are nearly 300,000 people aged 55 and older in the region's workforce and not nearly enough young people coming into the workforce each year to replace them as they retire.

[1] Prince Edward Island is the notable exception with economic and population growth figures exceeding the national level over the past decade.

**Figure 1: Average Annual Real GDP Growth Rates, Canada and Atlantic Canada**




*Source: Statistics Canada Table: 36-10-0222-01.*

## Entrepreneurship Could be Waning in Atlantic Canada

There is evidence that despite some important growth areas, overall entrepreneurship may be waning in Atlantic Canada. The total number of self-employed persons has dropped from 136,500 across the four provinces, in 2013 to 121,700 in 2019 (pre-pandemic), a decline of 14,800 entrepreneurs. Meanwhile, across Canada the number of self-employed increased robustly by 181,400 over the same timeframe. Adjusted for population size, there are now 30 percent fewer self-employed persons in Atlantic Canada compared to the rest of Canada.

## The Atlantic Region Has Considerably Fewer Exporters

Atlantic Canada is an export dependent region, but it has considerably fewer exporters adjusted for population size when compared to the rest of the country. Across the region there are only 93 exporters per 100,000 population compared to 129 across Canada and 141 in Ontario. There are 52 percent more exporters in Ontario adjusted for population size as in Atlantic Canada.

## Private Sector Investment in the Region is Weak

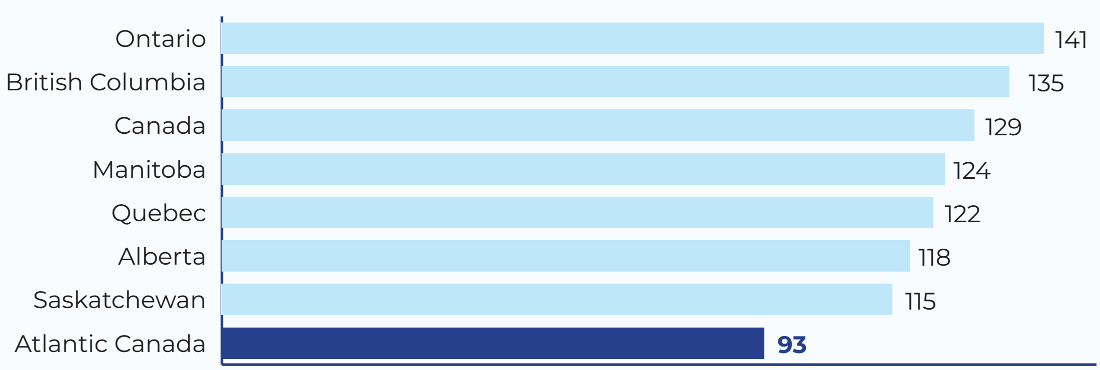
Non-residential capital expenditures in the region have been well below the national average for most of the past 15 years, relative to population size. In 2020, private sector investment per capita was 23 percent below the Canadian average and in 2021 it is expected to be 26 percent below average. If the region was attracting its share of national investment, it would add $4 billion worth of capital expenditures in 2021 across the region.

## But There Were Greenshoots Before the Pandemic

Before the Covid-19 pandemic hit there were signs the economy was starting to rebound in Atlantic Canada. As mentioned elsewhere, Prince Edward Island has been a consistently strong economy over the past decade and more. New Brunswick and Nova Scotia had both witnessed several years of solid population growth driven by increased levels of immigration. Regional GDP growth in 2019 was a combined 2.6 percent, above the national growth rate.

The question facing the region in 2021 is can we get back to the positive momentum built up before the pandemic and sustain economic growth in the years ahead given the demographic realities facing the region, national political risk, industrial shifts and technological change?

**Figure 2: Number of International Exporters per 100,000 Population, 2020**




*Source: Statistics Canada Table: 12-10-0098-01.*

## AN ATLANTIC CANADA INVESTOR TAX CREDIT PROGRAM SHOULD BE PART OF THE SOLUTION

A regional investor tax credit program should be an important part of the solution by providing early-stage angel investment for new companies and existing firms looking to expand. If the program is focused on industries that grow the economy (exporters or those that replace imports) there could be significant economic benefits to the region.

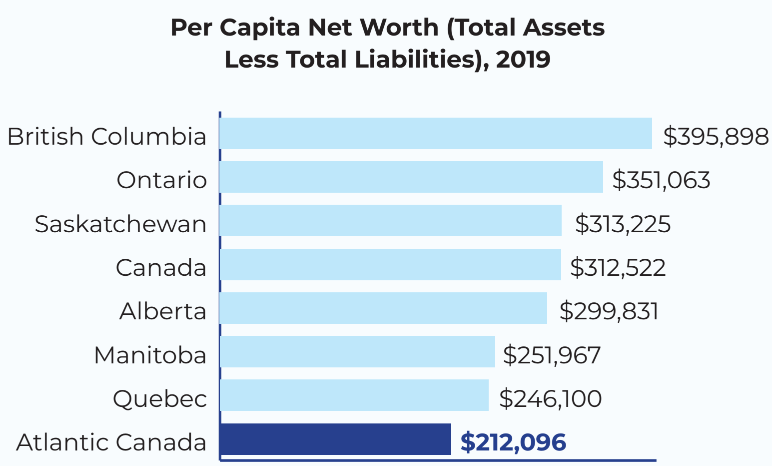
According to a report prepared by the National Angel Capital Organization, Atlantic Canada consistently attracts significantly less angel investment per capita than the rest of the country. This investment gap is holding back the economic potential of the region. As will be developed below, angel investment is a critical part of the capital cycle for high growth potential firms.

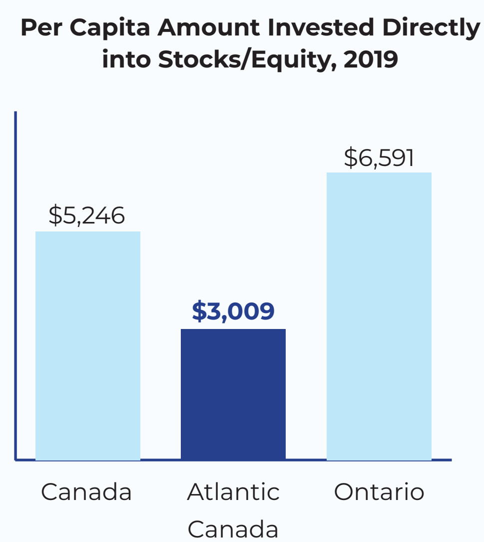
## Why Have an Atlantic Canada-Wide Investor Tax Credit Program?

Atlantic Canada shares a lot of common challenges and opportunities. One of the challenges is a limited pool of investors with the capital to invest in riskier, early-stage companies. The per capita net worth in Atlantic Canada is 32 percent below the national average and only half the level in British Columbia (Figure 3). That means less money to put up as risk capital. In fact, on a per capita basis, Atlantic Canadians have 43 percent less invested directly in stocks/equity than their counterparts across the country. The typical Ontarioian has 2.2 times as much invested directly in stocks/equity than a person in Atlantic Canada.[2]

[2] This excludes investments in mutual funds or indirect stock investment through pension plans.

**Figure 3: Household Financial Position, Atlantic Canada vs. Rest of Canada, 2019**




*Source: Statistics Canada Table: 11-10-0016-01.*

**OPENING UP A REGIONAL INVESTOR TAX CREDIT PROGRAM EXPANDS THE POOL OF POTENTIAL INVESTORS.**

## DO THESE INVESTOR TAX CREDIT PROGRAMS WORK?

While there has not been much data collected on the economic outcomes associated with provincial investor tax credit programs in the past, there are some examples that point to the impact in the region.[3]

### Example: Entrevestor's Regional Investment Activity Report

The data collection firm, Entrevestor, has been tracking investment into Atlantic Canada start-ups for more than a decade. The firm recently looked at friends and family/angel investment into start-ups between 2018 and 2020 across Atlantic Canada. There were over 100 firms that attracted friends and family/angel investment in those three years with a total raised of $92.9 million.

| YEAR | NO. OF COS | TOTAL RAISED |
|---|---|---|
| 2018 | 61 | $33.9 million |
| 2019 | 50 | $26.6 million |
| 2020 | 47 | $32.4 million |

Entrevestor looked at the economic performance of those firms in 2020. Seven of the companies failed, one exited and several raised money more than once leaving a total of 108 companies. Those 108 firms employed a combined 1,420 workers and witnessed 37 percent job growth and 61 percent revenue growth in 2020.

Assuming typical economic multipliers for those 1,420 workers, it is likely the firms contributed approximately $24 million in provincial and local tax revenue in 2020. It is unknown how much of the friends and family/angel investment received government investor tax credits but even it had been 35 percent, it would mean that provincial governments would get 'payback' on the forgone tax revenue within 1.3 years. After that all incremental tax revenue generated by the 108 firms goes to fund public services across the region.[4]

### Example: Island Capital Partners

There are a number of examples that show the importance of angel investment to support the growth of strategic industries in the region. Island Capital Partners on PEI invested $3.2 million into high growth potential companies on the Island and that funding leveraged up to $29.5 million in total capital, including $18.6 million of investment from outside the region or country.

Assuming this $29.5 million capital is being spent mostly on human resources and other local spending, the provincial/local government taxes generated on the $29.5 million would be an estimated $3.5 million – before any tax considerations related to revenue and future revenue growth. Just the taxes on the $29.5 million would be higher than the $3.2 million investment.

### Example: NB IT and Tech Company Investments

Within the New Brunswick Innovation Foundation investment portfolio, there are 13 firms who used the provincial small business investment tax credit program as part of early/angel investment. These firms combined raised $11 million using the program. It's unknown how much of this investment came from individual investors or corporate/trusts. However, assuming the top end, a total Government of New Brunswick tax credit would have been $5.5 million (50% of the total raised).

Combined these firms now have 400 employees at annual salaries well above average in New Brunswick. Assuming typical economic multipliers for technology-based firms, these 400 direct employees support over 600 workers in total across the province and an annual payroll of approximately $45 million. The annual provincial and local government taxes generated from this economic activity would be approximately $6.3 million. In one year, this more than offsets the total amount of the tax credits received by investors into the 13 firms.

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[3] Part of the proposed regional investor tax credit pilot project would be to gather more comprehensive data on the outcomes of firms participating in the program.
[4] This does not consider that these firms might have received funding from other government programs.

### Example: PEI Biosciences

The PEI biosciences cluster is one of the most impressive examples of how early-stage investment and support can help build a cluster of successful companies. The number of firms in the cluster more than doubled between 2011 and 2019 as did total employment. Biosciences firms and the supporting ecosystem combined to contribute $256 million to provincial GDP in 2018, or 4.4% of the entire provincial economy.

## THE RETURN ON PUBLIC INVESTMENT FROM A NEW REGIONAL INVESTOR TAX CREDIT PROGRAM

A regional investor tax credit program would help stimulate significant new early stage, angel investment across the region leading to potentially significant economic impacts down the road. The pilot project proposal is for a 35 percent regional investor tax credit applied to investment in selected industries. The amount of investment raised will depend on the scope of industries included in the initiative but assuming an inter-provincial program raises $23 million per year, the economic impacts and payment on the taxpayer investment are shown in Table 1. Of course, this table is based on a variety of assumptions, but it does show a reasonable outcome from such a program.

The economic impacts in the table are shown only for the Year 1 cohort of firms. The impact would be multiplied over the four-year period as more firms receive investment.

The detailed model including province-by-province impacts is found in Appendix B.

Assuming the program raises $23 million in Year 1, that will require a taxpayer investment of $8.1 million (35% of the total). In this model, that involves 46 firms at an average of $500,000 investment per firm. It was further assumed no revenue would be generated in Year 1 and only start to kick in in Year 2. Revenue growth would be fairly strong in Years 3 and 4 (see Appendix B for detailed assumptions) and by Year 4 would average $562,500 per company.

These firms combined would boost regional GDP by $79 million over the four-year period and support 266 jobs by Year 4. The initial investment and firm revenue would support $52.3 million in labour income through direct, indirect, and induced effects. Over the four-year period, the initial $8.1 million is expected to generate $11.1 million worth of incremental provincial and local government tax revenue providing a four-year ROI of $1.38 in new tax revenue for every $1.00 in support (or a payback period of 3.2 years).

Of course, in Year 5 and beyond tax revenues will grow even further.

### Table 1: Economic impact of a New Regional Investor Tax Credit

| | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | TOTAL |
|---|---|---|---|---|---|
| Annual investment ($M) | $23.0 | | | | |
| Investor tax credits provided (35%) | $8.1 | | | | |
| Firms supported | 46 | 46 | 46 | 46 | |
| Investment burn (33% per year) - Year 1 cohort ($M) | $7.7 | $7.7 | $7.7 | $0 | $23.0 |
| New Revenue - Year 1 cohort ($M) | $0 | $11.5 | $17.3 | $25.9 | $54.6 |
| Total revenue and investment burn - Year 1 cohort ($M) | $7.7 | $19.2 | $24.9 | $25.9 | $77.6 |
| GDP contribution ($M) | $7.8 | $19.6 | $25.5 | $26.5 | $79.4 |
| Employment ($M) | 78.8 | 197.0 | 256.1 | 265.9 | |
| Labour income ($M) | $5.2 | $12.9 | $16.8 | $17.4 | $52.3 |
| Provincial and local government taxation ($M) | $1.1 | $2.7 | $3.6 | $3.7 | $11.1 |
| Average revenue per firm by year | 0 | $250,000 | $375,000 | $562,500 | |
| **PAYBACK ON INVESTOR TAX CREDIT PROGRAM ($M)** | **3.2 YEARS** | | | | |

## CONCLUSION:

Atlantic Canada needs an economic resurgence in the coming years to ensure it can sustainably fund public services out of tax revenues collected each year. With the upward pressure on health care and other costs, government will need strong economies to generate more organic tax revenue as there is little room to raise tax rates.

An investor tax credit program that derisks angel investment in strategic, high growth potential firms could be an important way to help stimulate high value economic activity in the years ahead. A regional investor tax credit program will widen the pool of investors and strengthen the investment environment for start-up companies across the region.

# APPENDIX B: DETAILED INVESTOR TAX CREDIT MODEL

Assumes population-based distribution of tax credits.

Investment burn: 1/3 of initial investment spend per year.

Revenue starts in Year 2 at 50% of initial investment and increases by 50% per year in Year 3 and 4. By Year 4 average firm revenue will be an estimated $562,000.

GDP, employment and labour income impacts based on direct, indirect and induced effects. For simplicity the multipliers for one sector were used in each province:

**Newfoundland and Labrador**
Computer systems design and related services

**Prince Edward Island**
Medical equipment and supplies manufacturing

**Nova Scotia**
Computer systems design and related services

**New Brunswick**
Computer systems design and related services

*Source: Statistics Canada Table: 36-10-0595-01.*

For simplicity, the provincial government/local tax multiplier was set at a standard 14% of GDP for all four provinces. Tax contribution varies depending on the average wage, payroll as a share of total costs, depth of local supply chain, etc. The 14% is a conservative tax multiplier for higher wage sectors such as those proposed for the investor tax credit.

| | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | TOTAL |
|---|---|---|---|---|---|
| Annual investment ($M) | $23,000,000 | | | | |
| Investor tax credits provided (35%) | $8,050,000 | | | | |
| | | | | | |
| **Investment by province** | | | | | |
| Newfoundland and Labrador (22%) | $5,060,000 | | | | |
| Prince Edward Island (6%) | $1,380,000 | | | | |
| Nova Scotia (40%) | $9,200,000 | | | | |
| New Brunswick (32%) | $7,360,000 | | | | |
| | | | | | |
| **Firms (average raise of $500,000)** | | | | | |
| Newfoundland and Labrador (22%) | 10 | | | | |
| Prince Edward Island (6%) | 3 | | | | |
| Nova Scotia (40%) | 18 | | | | |
| New Brunswick (32%) | 15 | | | | |
| | | | | | |
| **Cumulative firms** | | | | | |
| Newfoundland and Labrador | 10 | 10 | 10 | 10 | |
| Prince Edward Island | 3 | 3 | 3 | 3 | |
| Nova Scotia | 18 | 18 | 18 | 18 | |
| New Brunswick | 15 | 15 | 15 | 15 | |
| Totals | 46 | 46 | 46 | 46 | |
| | | | | | |
| **Investment burn (33% per year) – Year 1 cohort** | | | | | |
| Newfoundland and Labrador | $1,686,667 | $1,686,667 | $1,686,667 | $0 | $5,060,000 |
| Prince Edward Island | $460,000 | $460,000 | $460,000 | $0 | $1,380,000 |
| Nova Scotia | $3,066,667 | $3,066,667 | $3,066,667 | $0 | $9,200,000 |
| New Brunswick | $2,453,333 | $2,453,333 | $2,453,333 | $0 | $7,360,000 |
| | | | | | |
| **New Revenue - Year 1 cohort** | | | | | |
| Newfoundland and Labrador | $0 | $2,530,000 | $3,795,000 | $5,692,500 | $12,017,500 |
| Prince Edward Island | $0 | $690,000 | $1,035,000 | $1,552,500 | $3,277,500 |
| Nova Scotia | $0 | $4,600,000 | $6,900,000 | $10,350,000 | $21,850,000 |
| New Brunswick | $0 | $3,680,000 | $5,520,000 | $8,280,000 | $17,480,000 |

| | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | TOTAL |
|---|---|---|---|---|---|
| **Total revenue and investment burn - Year 1 cohort** | | | | | |
| Newfoundland and Labrador | $1,686,667 | $4,216,667 | $5,481,667 | $5,692,500 | $17,077,500 |
| Prince Edward Island | $460,000 | $1,150,000 | $1,495,000 | $1,552,500 | $4,657,500 |
| Nova Scotia | $3,066,667 | $7,666,667 | $9,966,667 | $10,350,000 | $31,050,000 |
| New Brunswick | $2,453,333 | $6,133,333 | $7,973,333 | $8,280,000 | $24,840,000 |
| | | | | | |
| **GDP contribution:** | | | | | |
| Newfoundland and Labrador | $1,705,220 | $4,263,050 | $5,541,965 | $5,755,118 | $17,265,352 |
| Prince Edward Island | $379,960 | $949,900 | $1,234,870 | $1,282,365 | $3,847,095 |
| Nova Scotia | $3,210,800 | $8,027,000 | $10,435,100 | $10,836,450 | $32,509,350 |
| New Brunswick | $2,541,653 | $6,354,133 | $8,260,373 | $8,578,080 | $25,734,240 |
| Totals | $7,837,633 | $19,594,083 | $25,472,308 | $26,452,013 | $79,356,037 |
| | | | | | |
| **Employment:** | | | | | |
| Newfoundland and Labrador | 12.1 | 30.3 | 39.4 | 40.9 | |
| Prince Edward Island | 7.0 | 17.6 | 22.9 | 23.8 | |
| Nova Scotia | 33.4 | 83.5 | 108.5 | 112.7 | |
| New Brunswick | 26.2 | 65.6 | 85.3 | 88.6 | |
| Totals | 78.8 | 197.0 | 256.1 | 265.9 | |
| | | | | | |
| **Labour income:** | | | | | |
| Newfoundland and Labrador | $959,713 | $2,399,283 | $3,119,068 | $3,239,033 | $9,717,097 |
| Prince Edward Island | $310,040 | $775,100 | $1,007,630 | $1,046,385 | $3,139,155 |
| Nova Scotia | $2,174,267 | $5,435,667 | $7,066,367 | $7,338,150 | $22,014,450 |
| New Brunswick | $1,724,693 | $4,311,733 | $5,605,253 | $5,820,840 | $17,462,520 |
| Totals | $5,168,713 | $12,921,783 | $16,798,318 | $17,444,408 | $52,333,222 |
| | | | | | |
| **Provincial and local government taxation:** | | | | | |
| Newfoundland and Labrador | $238,731 | $596,827 | $775,875 | $805,716 | $2,417,149 |
| Prince Edward Island | $53,194 | $132,986 | $172,882 | $179,531 | $538,593 |
| Nova Scotia | $449,512 | $1,123,780 | $1,460,914 | $1,517,103 | $4,551,309 |
| New Brunswick | $355,831 | $889,579 | $1,156,452 | $1,200,931 | $3,602,794 |
| Totals | $1,097,269 | $2,743,172 | $3,566,123 | $3,703,282 | $11,109,845 |

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