

R&D Tax Incentives: Canada, 2021

Design of R&D tax relief provisions

Canada provides R&D tax relief through a volume-based tax credit.

Table 1. Main design features of R&D tax incentives in Canada, 2021

		Federal Scientific research and experimental development (SR&ED) tax credit
Tax incentive		Tax credit
Type of instrument		Volume-based
Eligible expenditures[†]		Current
Headline rates (%)		15 (35 for CCPCs*)
Refund		Immediate (CCPCs)
Carry-over (years)		20 (carry-forward), 3 (carry-back)
Thresholds & ceilings	Threshold (R&D expenditure)	35% credits are available to CCPCs up to a baseline expenditure limit of CAD 3 million** (excess expenditure is eligible for 15% tax credit)
	Refund-specific	Full refund at 35% rate up to expenditure limit of CAD 3 million (CCPC)***

* CCPC: Canadian-controlled Private Corporation.** Before March 2019, the baseline limit of CAD 3 million was reduced as a function of taxable income and taxable capital and was fully phased out once a CCPC reaches a prior year taxable income of CAD 0.8 million or a prior year taxable capital of CAD 50 million. As of March 2019, the use of previous year taxable income is removed as a factor in determining a CCPC's annual expenditure limit. The latter is a function of taxable capital only.

Note: For more details, see [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

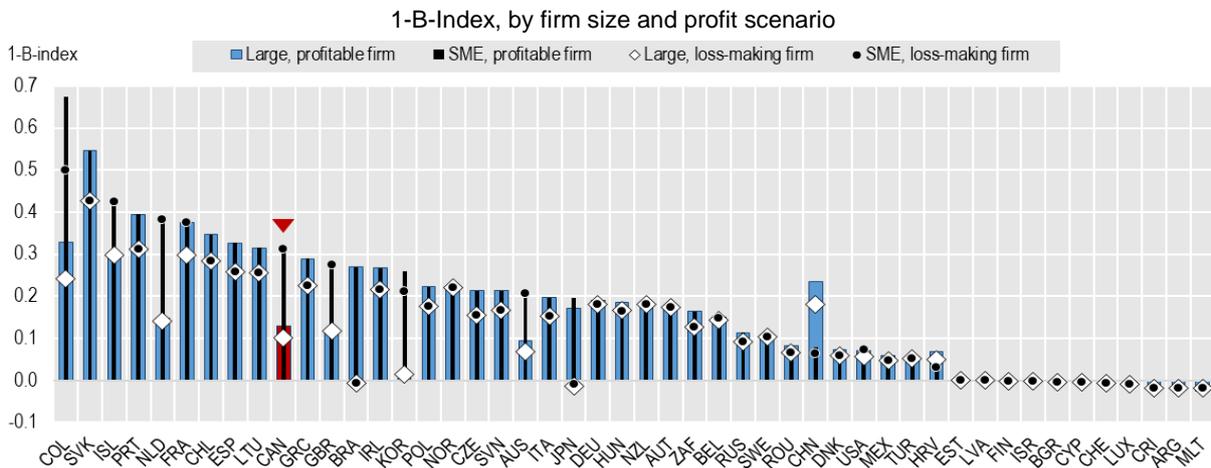
Key features:

- In case of insufficient tax liability, unused credits can be carried-forward (back) for 20 (three) years.
- R&D tax credit is fully refundable for Canadian-controlled Private Corporations (CCPCs) at an enhanced rate of 35% on expenditures up to a limit of CAD 3 million (1 CAD= 0.674 EUR, Q3 2021).
- R&D expenses in excess of this threshold qualify for a tax credit at a reduced rate of 15% that is 40% refundable if its prior-year taxable income does not exceed its qualifying income limit for the business group. The qualifying income limit starts at CAD 500 000 and is reduced when prior-year taxable capital is between CAD 10 million and CAD 50 million.
- The expenditure limit of CAD 3 million is reduced as a function of the taxable capital in the previous tax year and fully phased out once a CCPC reaches a prior year taxable capital of CAD 50 million.
- In addition to Federal tax support, Canada offers provincial R&D tax credits that range from 3.5% (Ontario) to 30% (Quebec). Many provinces provide refundable credits.

Generosity of R&D tax support in 2021

Differences in the design of R&D tax incentives drive significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2021, the marginal tax subsidy rate for profit-making (loss-making) SMEs in **Canada** is estimated at 0.31 (0.31), well above the OECD median of 0.20 (0.18). For the purpose of modelling Canada's R&D tax subsidy rates, SMEs are defined as eligible Canadian Controlled Private Corporations who benefit from a refundable R&D tax credit at an enhanced rate (see Table 1).

Figure 1. Implied tax subsidy rates on R&D expenditures: Canada, 2021



Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

The implied tax subsidy rate for large enterprises is 0.13 (0.10) in the profit (loss)-making scenario, below the OECD median of 0.17 (0.15). Only Federal tax incentives are modelled – the SR&ED tax credit and accelerated depreciation for machinery and equipment used in the process of R&D (immediate write-off), available during the time period 2000-2014.

Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2021, **Canada** did not undertake any **changes** in its R&D tax relief provision.

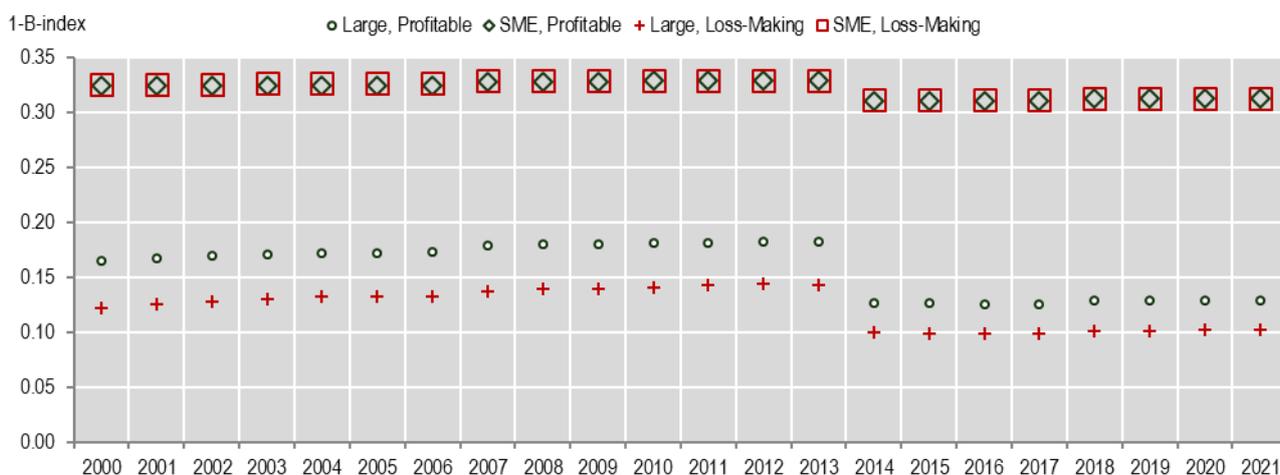
Trends in the generosity of R&D tax support

The generosity of federal R&D tax incentives has remained fairly stable in **Canada** over the 2000-21 period, with a reduction in implied R&D tax subsidy rates in 2014. In this year, the accelerated depreciation provision for machinery and equipment used in the process of R&D (immediate write-off) was abolished, capital expenditures and lease costs ceased to qualify for tax support under the SR&ED investment tax credit; and the general rate of the SR&ED investment tax credit was reduced from 20% to 15%.

This change in the rate of the tax credit did not affect SMEs which benefited from a fully refundable tax credit at an enhanced rate of 35% throughout the time period considered. If the SR&ED threshold applicable to SMEs is considered in the modelling of R&D tax subsidy rates, the rate for profitable (loss-making) SMEs slightly changes from 0.31 (0.31) to 0.31 (0.29).

Figure 2. Implied tax subsidy rates on R&D expenditures: Canada, 2000-21

1-B-Index, by firm size and profit scenario



Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

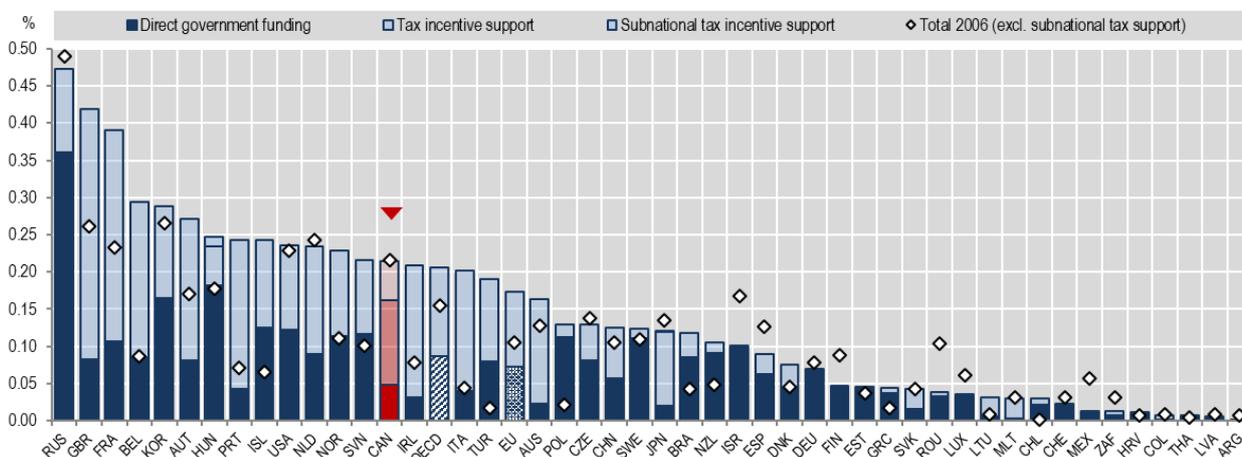
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

Policy support for business R&D: the policy mix

In 2019, **Canada** is placed above the OECD average in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.21% of GDP.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2019 (nearest year)

As a percentage of GDP



Note: Data on subnational tax support are only available for a group of countries.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

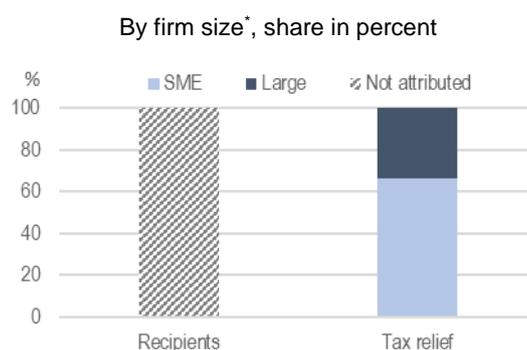
Key points:

- From 2006 to 2019, business R&D intensity in **Canada** declined from 1.1% to 0.8%.
- Partly reflecting this trend, over the same period government support for BERD (excluding subnational tax support) as a percentage of GDP decreased in **Canada** by 0.05 percentage point (pp), a change identical to the one observed at the OECD average.
- In 2019, R&D tax incentives (including subnational tax support) accounted for 77% of total government support for BERD in **Canada**.

Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2019



Note: Figures refer to the SR&ED tax credit. *SMEs are defined as eligible Canadian Controlled Private Corporations (CCPCs).

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

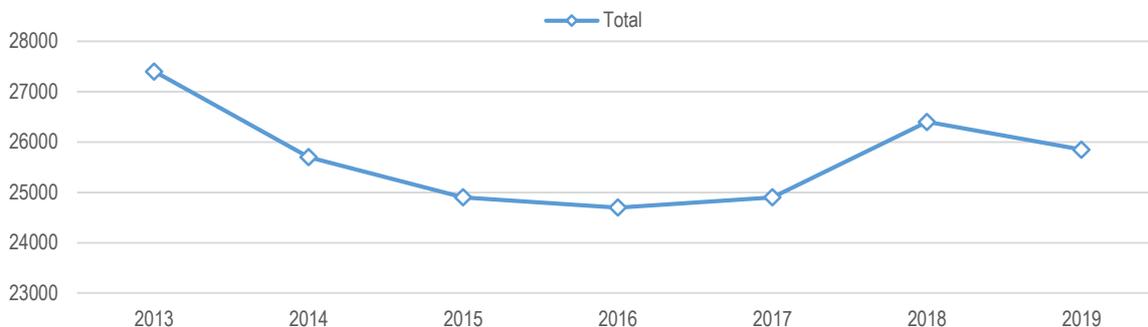
Key points:

- While data on the share of R&D tax relief recipients accounted for by SMEs vis-à-vis large firms are not available for **Canada**, the available breakdown for GTARD indicates that 66% of federal R&D tax support in **Canada** was distributed to SMEs (CCPCs) in 2019, while the share of R&D tax support allocated to large firms amounted to 34% in that year.

Trends in the uptake of R&D tax incentives

Over the period 2013-2019 (for which relevant data are available), the number of R&D tax relief recipients decreased by around 5% in **Canada** from 27 400 recipients in 2013 to 25 850 recipients in 2019. Most of this decline is attributable to the year 2014 in which a reform of the SR&ED tax credit was undertaken. In that year, this count reached 25 700, a decline of around 1 700 firms compared to 2013. In 2018 the number of R&D tax relief recipients rose again to 26 400, dropping to 25 850 recipients in 2019.

Figure 5. Number of R&D tax relief recipients, Canada, 2013-2019



Note: Figures refer to SR&ED investment tax credit.

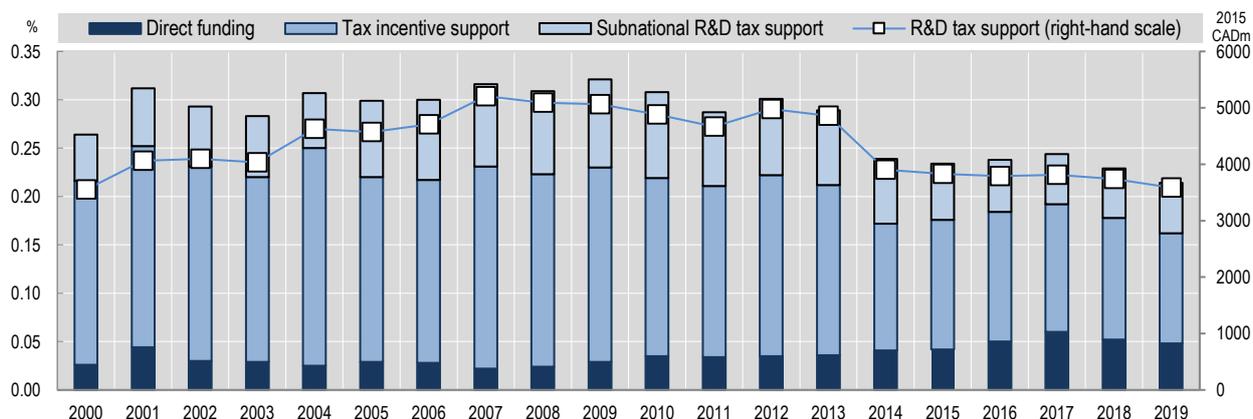
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

Trends in government support for business R&D

Between 2000 and 2019, the importance of tax incentives has been very high in **Canada**, both in absolute and relative terms, with a rebalancing of the policy mix noticeable in more recent years.

Figure 6. Direct government funding of business R&D and tax incentives for R&D, Canada, 2000-19

As a percentage of GDP, 2015 prices (right-hand scale)



Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

- From January 2014, the base of eligible expenditures was narrowed by removing capital expenditures and lease costs, and the SR&ED tax credit was reduced from 20% to 15%. In part, this led to a noticeable drop in the cost of total R&D tax support (federal and subnational) in 2014. The cost of this support continued to decline slightly thereafter to reach CAD 3 588 million (in 2015 prices) in 2019, a level similar to the one observed in the year 2000 (CAD 3 550 million).
- As a percentage of GDP, total R&D tax relief oscillated between 0.25% and 0.29% of GDP from 2008 to 2013, declined to 0.20% of GDP after the tax credit reform in 2014 to reach 0.17% of GDP in 2019.
- Direct funding of BERD increased from 0.03% to 0.05% of GDP between 2000 and 2019.
- The share of R&D tax incentives in total government support fluctuated between 88% and 92% over the 2008-13 period, dropping to 83% in 2014 and declining further to 77% in 2019. Subnational tax incentives accounted for 28-34% of total tax support for R&D during the 2008-19 period (31% in 2019).

Please cite this note as: OECD (2021). "R&D Tax Incentives: Canada, 2021", www.oecd.org/sti/rd-tax-stats-canada.pdf, Directorate for Science, Technology and Innovation, December 2021.

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