Design features

Canada’s Federal Government provides R&D tax relief through a volume-based R&D tax credit.

- 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 = 0.73 USD, 31.12.2018). R&D expenses in excess of this threshold qualify for a credit at reduced rate of 15% that is 40% refundable if its prior-year taxable income does not exceed its qualifying income limit, which applies on the basis of an associated group. The qualifying income limit starts at CAD 500,000 and is reduced where prior-year taxable capital is between CAD 10 million and CAD 50 million.
- The expenditure limit of CAD 3 million is 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.

### Table 1. Main design features of R&D tax incentives in Canada, 2018†

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

*CCPC: Canadian-controlled Private Corporation.** The baseline limit of CAD 3 million is reduced as a function of taxable income and taxable capital and is 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. *** In excess of CAD 3 million, credits earned at 15% rate may qualify for a 40% refund. A Canadian-controlled private corporation is eligible for such a refund if its prior-year taxable income does not exceed its qualifying income limit, which applies on the basis of an associated group. The qualifying income limit starts at CAD 500,000 and is reduced where prior-year taxable capital is between CAD 10 million and CAD 50 million, else no refund.

†For additional information: OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief

Recent developments and trends

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment across OECD and partner economies and over time. In 2018, 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 (0.17). The tax subsidy rate for large enterprises is equal to 0.13 (0.10) in the profit (loss)-making scenario, equal to the OECD median of 0.13 (0.10).

The generosity of R&D tax support has remained fairly stable in Canada over the 2000-18 period, with a drop in implied subsidy rates noticeable in 2014. In this year, capital expenditures and lease costs ceased to qualify for tax support, 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 (CCPCs) which benefited from a fully refundable tax credit at an enhanced rate of 35% throughout the time period considered.

### Figure 1. Implied tax subsidy rates on R&D expenditures: Canada, 2000-18

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. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief. For more information on the calculation of implied subsidy rates, see http://www.oecd.org/sti/r&d-tax-stats/index-methodology.pdf and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sti/r&d-tax-stats-baseline-notes.pdf
Public support for business R&D: the policy mix

Governments adopt various instruments to incentivise R&D by business. In addition to direct support such as grants and buying R&D services, 30 out of the 36 OECD countries provided fiscal incentives in 2018.

**Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2016 (nearest year)**

As a percentage of GDP

- **Canada** is placed above the OECD median in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.18% of GDP in 2016.
- From 2006 to 2016, government support for BERD as a percentage of GDP declined in **Canada** by 0.04 percentage points, while the OECD median increased by 0.02 percentage points.
- During this period, business R&D intensity in **Canada** declined from 1.1% to 0.89%.
- In 2016, R&D tax incentives accounted for 74% of total government support for BERD in **Canada**.

**Trends in government support for business R&D**

Over the last decade, a general trend towards non-discretionary instruments such as R&D tax incentives has been observed. This trend is far from uniform and the policy mix can vary by country and over time.

**Figure 3. Direct funding of business R&D and tax incentives for R&D, Canada, 2000-16**

As a percentage of GDP, 2010 prices (right-hand scale)

- Between 2000 and 2016, the importance of tax incentives has remained fairly high in **Canada**, both in absolute and relative terms, with a rebalancing of the policy mix noticeable in more recent years.
- The cost of tax relief rose (in 2010 prices) from CAD 2640 million in 2000 to CAD 3050 million in 2013, declining to CAD 2475 million in 2016. From January 2014, the base of eligible expenditures was narrowed by removing capital expenditures and lease costs. The general SR&ED investment tax credit was also reduced from 20% to 15%.
- As a percentage of GDP, R&D tax support oscillated between 0.19% and 0.23% of GDP over the 2000-13 period and reached 0.13% of GDP in 2016 following the tax credit reform in 2014.
- Direct funding of BERD increased from 0.03% and 0.05% of GDP between 2000 and 2016.
- The share of R&D tax incentives in total government support fluctuated between 82% and 90% over the 2000-13 period, dropping to 76% in 2014 and amounting to 74% in 2016.