R&D Tax Incentives: Canada, 2019

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 = 0.681 EUR, Q3 2019).
- R&D expenses in excess of this threshold qualify for a tax credit at 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.

Table 1. Main design features of R&D tax incentives in Canada, 2019†

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<tr>
<th>Tax incentive</th>
<th>Federal Scientific research and experimental development (SR&amp;ED) tax credit</th>
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<td>Type of instrument</td>
<td>Volume-based</td>
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<td>Eligible expenditures†</td>
<td>Current</td>
</tr>
<tr>
<td>Headline rates (%)</td>
<td>15 (35 for CCPCs*)</td>
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<td>Refund</td>
<td>Immediate (CCPCs)</td>
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<td>Carry-over (years)</td>
<td>20 (carry-forward), 3 (carry-back)</td>
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**Thresholds & ceilings**

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<th>Threshold (R&amp;D expenditure)</th>
<th>35% credits are available to CCPCs up to a baseline expenditure limit of CAD 3 million**</th>
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<td>(excess expenditure is eligible for 15% tax credit)</td>
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* 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 6.8 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.

Recent developments and trends

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 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 0.19 (0.17). The implied tax subsidy rate for large enterprises is 0.13 (0.10) in the profit (loss)-making scenario, close (equal) to the OECD median of 0.14 (0.10). 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 from 2000 to 2014. According to SR&ED eligibility purposes, SMEs correspond to CCPCs.

The generosity of R&D tax support has remained fairly stable in Canada over the 2000-19 period, with a reduction in implied subsidy rates 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 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 profit (loss-making) SMEs slightly changes from 0.31 (0.33) to 0.31 (0.25).

Figure 1. Implied tax subsidy rates on R&D expenditures: Canada, 2000-19

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 (see methodology and country-specific notes) 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.

† Disclaimer: http://oe.cd/disclaimer.
Public support for business R&D: the policy mix

In 2017, Canada is above the OECD median in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.23% of GDP.

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year)
As a percentage of GDP

* Data on tax support not available, ** Data on subnational tax support not available


- From 2006 to 2017, government support for BERD (excluding subnational tax support) as a percentage of GDP declined in Canada by 0.04 pp, while the OECD median increased by 0.015 pp.
- During this period, business R&D intensity in Canada declined from 1.1% to 0.82%.
- In 2017, R&D tax incentives accounted for 74% of total government support for BERD in Canada.

Trends in government support for business R&D

Between 2000 and 2017, 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 3. Direct government funding of business R&D and tax incentives for R&D, Canada, 2000-17
As a percentage of GDP, 2010 prices (right-hand scale)


- The cost of R&D tax relief declined (in 2010 prices) from CAD 4 723 million in 2008 to CAD 3 520 million in 2017. From January 2014, the base of eligible expenditures was narrowed by removing capital expenditures and lease costs. The SR&ED investment tax credit was also reduced from 20% to 15%.
- As a percentage of GDP, R&D tax support oscillated between 0.25% and 0.29% of GDP over the 2008-13 period, declined to 0.20% of GDP after the tax credit reform in 2014 to reach 0.18% of GDP in 2017.
- Direct funding of BERD increased from 0.03% to 0.05% of GDP between 2000 and 2017.
- The share of R&D tax incentives in total government support fluctuated between 82% and 92% over the 2008-13 period, dropping to 83% in 2014 and declining further to 74% in 2017. Subnational R&D tax incentives accounted for 29-34% of total tax support for R&D during the 2008-17 period (29% in 2017).


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