

Canada's R&D tax incentive programs

Canada offers foreign investors one of the most lucrative and flexible R&D tax incentive programs in the world, making Canada a clear choice to invest in R&D activities.

Among the G7 countries, Canada is the unquestionable leader in providing the most attractive tax incentives for R&D. When combined with provincial incentives, for every \$100 in R&D expenditures undertaken in Canada, foreign investors are reimbursed up to \$27 as a tax credit. By comparison, France and Japan are a distant second, offering between \$12 and \$20 in tax credits for R&D work undertaken within their jurisdictions.

Not only is Canada the G7 leader when it comes to the absolute level of its R&D tax incentive, Canada's R&D tax structure is also one of the most flexible, open, and market-based programs in the OECD. Unlike many of Canada's OECD and G7 competitors whose R&D tax incentive programs have fixed budgets and caps on available tax credits for individual companies, Canada's Scientific Research & Experimental Development program is an open-ended tax incentive initiative whereby private-sector R&D expenditures qualify for tax credits issued by the Canadian government.

The Scientific Research & Experimental Development program

The Scientific Research & Experimental Development (SR&ED) program allows a tax credit on qualifying R&D expenditures incurred in Canada. For large companies, the rate is 20 percent and the credit is non-refundable. For small companies that are Canadian Controlled Private Corporations (CCPCs), the rate is up to 35 percent and the credit can be refundable. In addition, the program allows a 100 percent deduction for qualifying current R&D expenditures and qualifying capital expenditures made on R&D machinery and equipment. In 2008, the Government of Canada announced further measures to streamline the SR&ED program and make it even more flexible for companies to undertake research globally and provide tax-incentives for research undertaken by their Canadian-resident employees carrying out SR&ED activities outside of Canada.

The SR&ED program has enjoyed steady growth in this decade. Government expenditures on SR&ED tax credits totalled \$2.4 billion in 2001 and were projected to reach \$3.3 billion in 2007, which represents a significant annual increase of 5.8 percent. Provincial tax credits supplement these federal tax rebates.

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