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SR&ED (Scientific Research and Experimental Development) Tax Incentive: Budget 2025 Updates

Overview

The 2025 Federal Budget introduced the most significant changes to Canada's Scientific Research & Experimental Development regime in more than a decade. For Canadian public companies, the headline change is that certain public corporations can now access the enhanced 35% refundable SR&ED investment tax credit (ITC), which historically was reserved for Canadian Controlled Private Corporations (CCPCs).

From the perspective of a Canadian public company, the changes can be grouped into four major areas:

1. Enhanced refundable SR&ED credits are now available to certain public companies

Prior to Budget 2025, public companies were generally limited to the 15% non-refundable SR&ED investment tax credit (ITC), which could only be used to reduce taxes payable. However, Budget 2025 allows certain public corporations to access the enhanced 35% refundable SR&ED credit, provided they qualify as "eligible Canadian public corporations" (ECPCs).

This is strategically important because it:

- improves cash recovery rather than merely generating tax attributes;
- enhances near-term liquidity and EBITDA-adjacent cash metrics;
- benefits pre-profit or low-tax-paying public issuers, especially in technology; cleantech, biotech and advanced manufacturing sectors; and
- may reduce reliance on dilutive equity financings for R&D-intensive issuers.

To qualify as an ECPC, public corporations must meet the criteria set out in the legislation. These criteria focus on Canadian-based public companies, rather than large multinational groups. To determine eligibility, companies must assess:

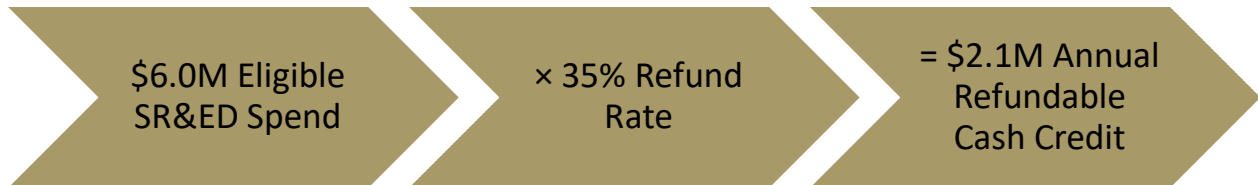
- Canadian ownership/public listing status;
- taxable capital thresholds; and
- associated corporation impacts



2. The enhanced expenditure limit increased materially

The annual expenditure ceiling eligible for the enhanced 35% refundable credit has increased as follows: \$3 million historically, \$4.5 million as proposed in the 2024 Fall Economic Statement, and \$6 million in Budget 2025.

For qualifying public companies, this means up to:



Practically, this can significantly improve:

- quarterly operating cash flow;
- innovation funding capacity;
- internal hurdle rates for Canadian R&D projects; and
- after-tax ROI on engineering and scientific programs.

For public issuers with substantial Canadian development teams, this may alter decisions around:

- where R&D is geographically located;
- whether to centralize IP development in Canada;
- timing of scale-up hiring; and
- acquisition integration planning.

3. Capital expenditures are once again eligible

Budget 2025 restored SR&ED eligibility for capital expenditures acquired after December 15, 2024. These expenditures had been removed from the regime in 2014.

This is particularly meaningful for public companies in:

- semiconductor and hardware development;
- advanced manufacturing;
- AI infrastructure;
- robotics;



- life sciences;
- clean technology; and
- industrial automation.

Eligible expenditures may now again include certain:

- equipment;
- machinery;
- testing infrastructure;
- lab assets; and
- pilot production systems used in qualifying SR&ED activities.

The reinstatement materially improves economics for capital-intensive R&D programs and could influence:

- Canadian facility investment decisions;
- capital allocation models;
- build-vs-buy analyses; and
- manufacturing localization strategies.

4. Expanded taxable-capital thresholds broaden access

Budget 2025 also widened the taxable capital phase-out range for enhanced SR&ED credits, increasing it from \$10 million to \$50 million previously, to \$15 million to \$75 million. This is significant, as many growth-stage public companies previously lost access to enhanced SR&ED support relatively quickly as taxable capital increased.

The broader thresholds may now allow:

- TSX Venture issuers transitioning to TSX;
- mid-cap Canadian innovators;
- rapidly scaling software companies; and
- growth-stage industrial technology companies.



Implications for Canadian public-company finance and tax teams

Increased focus on refundable cash recovery

Public-company CFOs may now treat SR&ED more as a recurring funding source rather than solely a tax planning mechanism.

Potential impacts include:

- improved treasury management;
- reduced financing needs;
- better R&D payback metrics; and
- stronger innovation-related disclosures to investors.

Potential impact on M&A and structuring

The revised rules may influence:

- acquisition target valuation;
- post-acquisition integration;
- where Canadian innovation functions are housed;
- whether R&D personnel remain in Canada, and
- IP ownership structures.

Additionally, for acquisitive public companies, preserving eligibility for enhanced refundable credits may become a transaction-planning consideration.

Effective dates

The major changes generally apply:

- for taxation years beginning after December 15, 2024; and
- for capital property acquired after December 15, 2024.



Bottom line

To further discuss how this may be of benefit to your company, and how Freelandt Caldwell Reilly LLP. can facilitate the process, please contact:

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