



# The SHIELD Score SR&ED Enhancements

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Sovereignty by Design

## Policy Overview

The Science Research & Experimental Development (SR&ED) tax credit is a \$4 billion annual government program that subsidizes R&D spending through tax credits to enterprises of all sizes operating in Canada.<sup>1</sup> The federal government announced changes to the SR&ED tax credit in Budget 2025.<sup>2</sup>

Canada's business community has been championing improvements to SR&ED for years, and many of the recommendations were finally delivered this year.<sup>3</sup> The budget changes raised the expenditure limit to \$6 million, extended the enhanced tax credit to eligible Canadian public corporations (CPCs), restored capital expenditure eligibility, increased the phase-out threshold for the enhanced 35% tax credit and improved administrative process.<sup>4</sup>

The enhanced 35% Investment Tax Credit (ICT) is available to Canadian-Controlled Private Corporations (CCPCs) and CPCs.<sup>5</sup> Unincorporated entities and Non-CCPC private corporations, which include foreign-controlled corporations, are able to claim the regular 15% tax credit rate.<sup>6,7</sup>

Government expects to spend an additional \$440 million a year on SR&ED, which in turn is forecast to create up to \$1.2 billion in additional economic activity annually.<sup>8</sup>

We ran the changes through the SHIELD Sovereignty Score and gave the package of amendments a 6 out of 10 for sovereignty and economic transformation.

The enhancements lost points on the SHIELD score because the package lacks guardrails to ensure the innovations are retained by Canadian companies and subject to Canadian law, neglects to design pathways to deliver value to broader stakeholder groups, and many small businesses are ineligible for the enhanced credit.

## SHIELD Score

### 1. Sovereignty: This section measures if and how the policy choice increases Canada's sovereignty and strategic autonomy?

#### **Does it use or incentivize the development of Canadian innovation?**

**Yes** - The whole purpose of SR&ED is to incentivize R&D and the SR&ED adjustments do just that.<sup>9</sup> The actions increase the financial viability of R&D initiatives and change the range of companies eligible for the enhanced credit.

#### **Does it enhance national economic security and defence and/or promote interoperability or open standards**

**Yes** - The SR&ED reforms will increase the competitive edge of Canadian businesses and reduce reliance on foreign markets to provide innovative products, hence increasing economic security. Supporting SR&ED opens the door for potential dual-use innovation, contributing to Canada's defence ecosystem.

#### **Does it reduce dependency on foreign firms or supply chains?**

**Yes** - The new enhancements to the SR&ED program function to benefit Canadian companies. The new capital expenditure eligibility includes specific rules around capital location, which also reduces Canada's reliance on foreign located equipment.<sup>10</sup>

#### **Does it avoid entrenching monopolies and/or systems that concentrate power in private hands?**

**Yes** - The expansion of the SR&ED program avoids entrenching monopolies or concentrating power: the program allows for participation from eligible Canadian companies of all sizes, with new users receiving access to the same benefits as established ones.

#### **Does it increase the ability for Canada to govern technology; for example, through IP ownership and data control by Canadian companies or the government itself?**

**No** - The IP, data and accompanying intangible assets created through government supported R&D are left vulnerable to capture by foreign companies who can siphon the data and IP across borders where the ability to govern the technology is taken up by international parties.

**2. Economic Transformation: This section measures if and how the policy delivers value-add to people in Canada, short-term and long-term?**

**Is the intellectual property, data and profit generated by this decision retained by Canadian firms?**

**No** - This policy decision lacks any improvement or conditions for Canadian IP retention or maintaining follow-on business activity in Canada. Multiple expert groups have criticized the Liberals for not including the promised 'patent box', which would have increased domestic IP retention.<sup>11,12</sup>

**Does it create, sustain or improve jobs in Canada?**

**Yes** - One of the main purposes of SR&ED is to support R&D employment expenditures — thus creating jobs.<sup>15</sup> Government does not keep records of the number of jobs R&D credits have supported — a missed opportunity to monitor success. The pharmaceutical industry employs thousands of R&D professionals and SR&ED supports more than 45% of the R&D expenses.<sup>16</sup>

**Does it increase skill utilization or broaden the skill base of Canadian workers?**

**Yes** - Subsidizing R&D employment creates job opportunities that utilize and develop the abilities of Canada's highly skilled workforce.<sup>17</sup> The experimental nature of R&D activity continuously broadens the skills base of R&D professionals and the employees who use the innovations in their daily work life.

**Does it promote systems that share economic benefits broadly?**

**No** - The additional tax incentive is accessible to CCPCs, and SR&ED is extended to CPCs for the first time. But other types of small businesses can only apply for the 15% basic credit — not the enhanced 35% rate. This means the SR&ED form leaves out about 40% of Canada's small businesses, even though these firms made up about 64% of overall SR&ED claimants in 2023.<sup>18, 19, 20</sup>

**Does it enhance affordability, quality, and innovation for consumers, not just returns for incumbents?**

**Yes** - Government has left the innovations vulnerable to capture by large foreign firms and multinationals who have a history prioritizing returns over consumer welfare. Some of this risk could have been mitigated through intangible asset transfer controls.

## Notes

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## About SHIELD

SHIELD is a next-generation policy studio focused on developing Canada's sovereignty and driving economic transformation. We work across infrastructures, industry, and innovation to confront systemic risks, retain economic value, and build the domestic capacity Canada needs to thrive. Our goal is a more prosperous, resilient, and independent future for all Canadians.

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For general inquiries, please contact [hello@canadianshieldinstitue.ca](mailto:hello@canadianshieldinstitue.ca)

For media inquiries, please contact [media@canadianshieldinstitue.ca](mailto:media@canadianshieldinstitue.ca)



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