



TaxNewsFlash

Canada

SR&ED Consultation — Finance Asks for More Feedback

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Canadian businesses that conduct research and development (R&D) may be interested in responding to the next round of consultations on Canada's Scientific Research and Experimental Development (SR&ED) program. Finance released a new consultation paper on April 25, 2024 to ask interested stakeholders to provide additional feedback on potential changes to the SR&ED program. Finance notes that it is now seeking feedback on the best use of additional funding allocated to the SR&ED program in the 2024 federal budget, as well as to address suggestions raised in earlier stakeholder submissions.

In particular, Finance is now asking for responses to specific questions to further explore potential changes proposed by stakeholders, including to allow small- and medium-sized public corporations to access the enhanced SR&ED refundable tax credit or to make the general SR&ED credit refundable, and to expand the SR&ED definition to allow for some aspects of commercialization activity, among other topics. Interested stakeholders who wish to provide input can submit comments to Finance by May 27, 2024.

Background

The SR&ED program is Canada's single largest support program for R&D and provides tax incentives to more than 20,000 businesses that conduct R&D, according to Finance. The benefits of this program include a deduction against income as well as refundable and non-refundable investment tax credits. Finance first announced that it would review the SR&ED program in the 2022 federal budget. Finance last made significant changes to the program in 2012.

Previously, Finance launched two consultations on January 31, 2024, in which it asked interested stakeholders to provide feedback on different aspects of the SR&ED program,

including possible cost-neutral ways to modernize and simplify the program, and also ways to encourage the development and retention of intellectual property (IP) in Canada, including through the introduction of a “patent box” regime. The consultation closed on April 15, 2024. For details, see *TaxNewsFlash–Canada* 2024-03, “[Businesses — Have your Say on Potential SR&ED changes](#)”.

In the 2024 federal budget, Finance provided an additional \$600 million for the SR&ED program over four years beginning in 2025, and \$150 million per year ongoing, for future enhancements to the program. Finance also announced that it would launch a second round of consultations to inform how to target this additional funding, including exploring how Canadian public companies could be made eligible for the enhanced credit. For details, see *TaxNewsFlash-Canada* 2024-17, “[2024 Federal Budget Highlights](#)” and *TaxNewsFlash-Canada* 2024-19, “[2024 Federal Budget — Funding and Incentives Highlights](#)”.

SR&ED program consultation questions

Finance is asking for feedback on the following specific questions:

1. What are some of the challenges faced by research-and-development-performing small- and medium-sized Canadian public corporations when it comes to financing?
2. To avoid any potential disincentives to growth, would entrepreneurs favour a program with one single rate accessible to all, even if it means somewhat lower support for small Canadian-controlled private corporations (CCPCs)?
3. How should the concept of "Canadian" public corporations be defined, should the government proceed with measures to improve access to the SR&ED program's enhanced credit for Canadian public corporations?
4. The SR&ED program currently has rules to prevent the multiplication of the expenditure limit by Canadian-controlled private corporations with common control. If enhanced support were extended to public corporations, how should relationships among legal entities be delineated?
5. Current global initiatives rely on accounting concepts of relationship and control to determine whether entities are included in a large business corporate group. Should existing international practices of this sort be adapted for determining relations for public corporations in the context of the SR&ED program?
6. What is the optimal size-based metric (e.g., taxable capital employed in Canada, revenue) to phase out enhanced support for public corporations, including those in a corporate group?

7. How does refundability under the SR&ED program influence investment decisions and planning? To what degree would Canada become a more competitive location to undertake R&D, compared to other jurisdictions, if credits earned at the general rate were partially or fully refundable?
8. Would it be preferable that the government make the general rate refundable, but at a reduced rate? What would be an acceptable trade-off in this regard?
9. In your view, should SR&ED-eligible activity be broadened from the existing OECD definition of SR&ED, generally used by Canada and other countries offering R&D tax credits? If so, how would you propose to amend the current definition? Why would any additional activities warrant government support?
10. Can you provide specific examples of activity that you think should be eligible for the SR&ED program that are not currently eligible? Would such a change bring additional predictability to claimants?
11. How could the SR&ED program be enhanced to support businesses conducting R&D in the digital age, particularly in respect of software development and the emergence of artificial intelligence?
12. To what extent do businesses face financial challenges and trade-offs in protecting their intellectual property (IP) in Canada and abroad? Would it be appropriate for the government to provide additional support to these activities under the SR&ED program? If so, what would be a cost-effective approach?

KPMG observations

Based on these questions, it appears that Finance is considering expanding the SR&ED credit's refundability and eligible activity criteria, but at the potential cost of a lower credit rate. Companies conducting any level of R&D, patent creation or commercialization within Canada should consider the implications of these changes, and determine whether they may want to respond to Finance's consultation.

We can help

Your KPMG adviser can help you assess the effect of these new developments. Additionally, if you currently conduct R&D in Canada but do not leverage these programs, consider connecting with your KPMG adviser to discuss whether your business may be eligible for benefits. For more details, contact your KPMG adviser.

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