

Canada's Federal Budget 2025: Big SR&ED Boost One Step Closer

Canada's 2025 federal budget tabled on November 4th, 2025, puts the enhancements to Canada's Scientific Research and Experimental Development ("SR&ED") tax credit program one step closer to the finish line. But with two positive surprises ...

In short, the budget proposes essentially all the measures that were set out in the fall economic statement released by the previous (Trudeau) government on December 16th, 2024, including:

- A. Capital equipment used for R&D to qualify as an SR&ED-eligible expense.
- B. Giving certain Canadian owned public corporations ("ECPCs") the same high-rate refundable SR&ED investment tax credit benefit rates as Canadian Owned Private Corporations ("CCPCs").
- C. Increasing the SR&ED expenditure limit.

Surprise #1 is in measure C: While the December 2024 (Trudeau gov.) plan was to increase the expenditure limit from \$3M to \$4.5M, budget 2025 (Carney gov.) proposes to increase the expenditure limit \$6M!

The expenditure limit refers to the point at which the ITC benefit rate falls from 35% to 15% with only 40% of that 15% as a cash refund with remaining 60% as an investment tax credit.

Surprise #2 is that all of these measures would be RETROACTIVELY effective for taxation years ending after December 16th 2024. Exploiting this may well mean re-filing last year's tax returns. However, if the budget is further delayed, the 18-month deadline rule may prevent doing so.

The change in expenditure limit coupled with the ECPC CCPC equivalence has the potential to deliver substantially increased funding to mid- and large-sized Canadian corporations. It also may encourage some larger private corporations to consider IPOs. However, the ultimate value of this is potentially undermined by the taxable capital grind by which the expenditure limit is reduced by \$0.75 for every \$10 of the corporation's taxable capital in excess of \$10M such that access to the high rate (35%) ITC is eliminated once prior year taxable capital exceeds \$50M.

The two things not seen in the budget were flow through shares and a "patent box" scheme with the ECPC / CCPC equivalence.

Will it happen? Canada has a minority federal government; three votes shy of the 172 needed to pass the budget. Barring any cross party "defections" the three extra votes will need to come from the opposition parties, each of whom has its own agenda. The first vote will likely happen this week, on Thursday November 6th, when the Bloc Québécois will request a sub-amendment in return for supporting Carney's government on the budget. If that is rejected the government may well fall; there will be a pre-Christmas election and another six months of uncertainty on these long-awaited SR&ED boosts.

About Scitax

Scitax Advisory Partners LP is a Canadian professional services firm with specialist expertise in all aspects of planning, preparing and defending Scientific Research and Experimental Development (SR&ED) tax credit claims.

We offer a multi-discipline team of engineers, chartered public accountants and tax lawyers to ensure that your SR&ED issues are covered from every angle.

While we normally work in concert with our client's existing accountants, our affiliated tax-dedicated chartered public accounting firm - Cadesky Tax - is an expert resource for advice on any taxation matter such as may arise either during the planning and preparation of your claim or while dealing with CRA afterwards.

In addition to planning and preparing new claims, we also engage on claims that have been challenged by CRA auditors or that have received negative assessments for either scientific or expenditure eligibility. If a satisfactory settlement cannot be achieved with CRA at the local office level, we will appeal your assessment through either Notice of Objection or Tax Court of Canada procedures with the assistance of our affiliated firm of tax lawyers.



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DIRECTORS:

David R. Hearn, Managing Director

Michael C. Cadesky, FCPA FCA BSc MBA

Scitax Advisory Partners LP

Exchange Tower, 130 King Street West, Suite 2300, PO Box 233, Toronto ON M5X 1C8 | 416-350-1214

| www.scitax.com

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