Centre for Productivity and Prosperity
Walter J. Somers Foundation
HEC MONTRÉAL

For immediate release

Press release

Tax credit for research, innovation, and commercialization: A costly tax reform with uncertain effectiveness

Montreal, February 25, 2026 – Less than a year after the Quebec government undertook a reform of its innovation support strategy, a new study by the Centre for Productivity and Prosperity – Walter J. Somers Foundation (CPP) concludes that changes to the tax system supporting scientific research and experimental development (SR&ED) are likely to significantly increase its budgetary cost without stimulating private research intensity.

"Despite its efforts to renew itself, the government is attempting to revive innovation among Quebec businesses by relying on an instrument designed more than 40 years ago," observes Robert Gagné, Director of the CPP. "However, the SR&ED tax support system has clearly reached its limits. By increasing the tax assistance offered to large companies, the new credit will undoubtedly increase public spending, but there is no indication that this increase will translate into additional SR&ED efforts where the benefits are expected. In fact, international analyses even suggest the opposite phenomenon."

Worrying results

Using administrative data from thousands of Canadian companies, the CPP assessed the extent to which companies' response to tax incentives varied according to their size: "In line with trends identified by the OECD, our analyses show that the effectiveness of provincial SR&ED credits decreases as companies grow in size, to the point where the credits are simply unproductive for large companies," explains Jonathan Deslauriers, Executive Director of the CPP and co-author of the study. These results suggest that tax credits act more as a mechanism for subsidizing existing activities than as a lever for expanding the research efforts of large companies, which raises doubts about whether the government's proposed reform will produce the expected results."

According to Quebec government forecasts, the tax bill for the new innovation assistance program is expected to total $2.4 billion over the next four years.

In this context, the CPP believes that a more ambitious overhaul of Quebec's innovation assistance strategy is inevitable. And this time, the overhaul will have to break with the "wall-to-wall" approach by segmenting the instruments according to the size, structure, and maturity of the companies, which implies significant use of budgetary assistance to support large companies. "If Quebec really wants to catch up in innovation, it will have to agree to thoroughly review the logic behind its intervention," concludes Robert Gagné. "Continuing to increase the generosity of an instrument whose marginal effectiveness is eroding amounts to maximizing the budgetary cost without solving the underlying problem."

Download the study to learn more: Tax credit for research, innovation, and commercialization: advocating for a genuine overhaul of innovation support

About the Centre for Productivity and Prosperity — Walter J. Somers Foundation

The Centre for Productivity and Prosperity — Walter J. Somers Foundation has a dual mission. It is dedicated to research on productivity and prosperity, with Quebec as its main subject of study. In addition, it works to disseminate the results of its research through transfer and education activities.

About the Walter J. Somers Foundation

The Somers family established the Walter J. Somers Foundation in tribute to the founder of the Walter Group. Through different donations, the Foundation pursues the family heritage of commitment to the community and contributes to the prosperity of Quebec society, firstly by helping to improve its productivity but also by supporting excellence in youth education.

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