

Tax credit for research, innovation, and commercialization: advocating for a genuine overhaul of innovation support

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SUMMARY

Despite more than 40 years of tax support and billions of dollars spent for this purpose, Quebec businesses are lagging far behind in scientific research and experimental development (SR&ED).

In an attempt to reverse this trend, the Quebec government reset its strategy in March 2025 by introducing the tax credit for research, innovation, and commercialization (CRIC), which aims to boost private investment by simplifying the tax system and substantially increasing the assistance available to businesses, particularly large corporations.

Far from breaking with the tax strategy of recent decades, this reform risks increasing the tax burden without correcting the structural weaknesses that hinder private investment in innovation, and for good reason. By relying on the spillover effects of large companies to stimulate innovation, it ignores an empirically validated international reality: the effectiveness of tax incentives decreases as companies grow in size.

Using tax microdata covering several thousand Canadian companies, the Centre for Productivity and Prosperity – Walter J. Somers Foundation assessed the extent to which companies' response to tax incentives varied according to their size. The results show that large companies do not significantly alter their research efforts in response to increased tax incentives, suggesting that tax credits act more as a mechanism for subsidizing existing activities than as a lever for expanding the research efforts of large companies.

Without a more profound recalibration of public intervention, Quebec is likely to perpetuate a costly model whose marginal effectiveness remains limited, and to see its lag in research and innovation continue to widen. In this context, the CPP believes that a more ambitious overhaul of Quebec's innovation support strategy will become inevitable if the current reform does not quickly produce tangible results. This overhaul will have to break with the "wall-to-wall" approach and segment the instruments according to the characteristics of the companies, focusing on targeted tax incentives for SMEs and direct budgetary interventions to support structuring projects carried out by large companies.

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TABLE OF CONTENTS

INTRODUCTION	5
OUTLOOK ON THE STATE OF SR&ED IN QUEBEC	8
THE EFFECTIVENESS OF SR&ED TAX INCENTIVES IN A CANADIAN CONTEXT	17
DISCUSSION, RECOMMENDATIONS, AND CONCLUSION	22
DATA SOURCES	25
APPENDIX	27

INTRODUCTION

In 1983, the Quebec government laid the foundations for its innovation support strategy by introducing a refundable tax credit on salaries devoted to scientific research and experimental development (SR&ED).

Unlike the federal government, which had been proposing a similar measure since the late 1970s, the Quebec government opted for a fully refundable credit, effectively giving the Quebec scheme quasi-fiscal status: in the event of losses, or when the assistance exceeds the tax otherwise payable, the company receives a cash transfer from the government.

Forty years have passed since then, and the structure of Quebec's economy has evolved, but the fundamentals of this strategy have remained unchanged. Until the 2025-2026 budget, most of the support for innovation was based on a tax credit designed in the early 1980s. However, this mechanism was clearly no longer achieving its objectives. The proof: the average level of private spending on SR&ED in the OECD19 group¹ in 2021 was 60% higher than in Quebec, even though the province was on par with that same average 20 years ago. In the meantime, the Quebec government has foregone more than \$14 billion in revenue to finance this credit.

In an attempt to reverse the trend, the Quebec government overhauled its SR&ED tax support strategy in March 2025. Under this new support framework, the government abolished six corporate tax credits² and two individual tax credits³ to consolidate its entire offering into a single measure – the Tax credit for research, innovation and commercialization (CRIC).

Among other notable changes, capital expenditures incurred by businesses in connection with SR&ED activities are now covered by the CRIC. Historically, only salaries were considered eligible expenses for provincial tax assistance. Pre-commercialization activities carried out as a result of an SR&ED process are also included in the scope of the CRIC, whereas prior to the reform, these activities were only partially covered, and under strict conditions. More importantly, the new tax framework to support innovation abolishes the degressive rates based on company size, a principle that had benefited small businesses since 1988. Now, all businesses can benefit from a 30% credit on the first million dollars of eligible SR&ED expenses⁴, with any excess eligible expenses then covered at a rate of 20%. Prior to the reform, the rate offered to larger businesses was capped at 14%.

In short, the new SR&ED support framework substantially increases the generosity of government support for large companies, and it is likely through this channel that it hopes to revive innovation in Quebec.

1 For more than 15 years, the CPP has been studying Quebec's performance by comparing it to member countries of the Organization for Economic Cooperation and Development (OECD). Initially, the selection of countries was based on Western economies with historical data. Twenty countries were selected for analysis: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Iceland, Italy, Japan, New Zealand, Norway, the Netherlands, South Korea, Spain, Sweden, Switzerland, and the United Kingdom. However, Ireland's exceptional performance means that it must be excluded from the comparison. Over the past decade, Ireland's significant economic catch-up has been boosted by a change in the country's national accounts and by an ever-stronger presence of multinationals, attracted by a particularly advantageous tax regime.

2 The [crédit d'impôt relatif aux salaires R-D](#), the [crédit d'impôt pour la recherche universitaire ou la recherche effectuée par un centre de recherche public ou par un consortium de recherche](#), the [crédit d'impôt pour la recherche précompétitive en partenariat privé](#), the [crédit d'impôt relatif aux cotisations et aux droits versés à un consortium de recherche](#), the [crédit d'impôt pour le design](#) and the [crédit d'impôt pour services d'adaptation technologique](#).

3 The [congé d'impôt pour les chercheurs étrangers](#), and the [congé d'impôt pour les experts étrangers](#).

4 In accordance with the exclusion threshold set at a minimum of \$50,000, or the sum of the basic personal amount under the personal income tax system for employees assigned to SR&ED activities. These amounts are adjusted based on the number of hours worked in SR&ED activities. Prior to the reform, only companies with assets of less than \$50 million had access to the enhanced rate on the first \$3 million of expenses. The rate then gradually decreased with the value of the assets, reaching a floor of 14% when the value of the company's assets exceeded \$75 million. Source: [Tax credit for research, innovation and commercialization \(CRIC\)](#).

THE IMPACT OF THE REFORM

To understand the logic behind the reform, it is important to remember that companies – large and small – are unable to fully internalize the benefits of their SR&ED activities. Ultimately, a significant portion of these benefits are passed on to other players without the company being able to reap any direct benefits. This is partly why tax incentives are now used by most OECD member countries: by reaching as many companies as possible, this form of incentive allows the government to fuel the innovation ecosystem through a ripple effect.

There is also consensus regarding the intensity of these spillover effects: the external rates of return on SR&ED activities are considered to be higher for large companies than for small companies. In other words, the societal gains per dollar spent on SR&ED are greater when these activities are carried out by a large company. According to a Canadian study⁵, the external rates of return on SR&ED are estimated to be 52% for large firms, compared to 19% for small firms. In other words, the present value of the economic benefits associated with a dollar invested in SR&ED is estimated to be 2.7 times higher when the activities originate from a large firm. It is therefore assumed that by increasing the tax assistance offered to large companies, the government intends to take advantage of the spillover effects generated by their SR&ED activities.

While logical in principle, the path taken by the reform nevertheless ignores a reality specific to tax incentives for innovation: their effectiveness decreases as the size of the company increases.

Because they are subject to greater competitive pressures and are generally more resilient to financial uncertainty, large companies are naturally inclined to undertake SR&ED activities and would therefore be less responsive to tax incentives. On the contrary, smaller companies would be more sensitive to tax incentives, primarily because they face tighter financing constraints, but also because they are less likely to engage in this type of activity.

A study conducted by the OECD⁶ based on aggregated microdata from member countries, including Canada, is very telling in this regard:

"In line with studies published in the past (OECD, 2016⁷), it appears that the impact of tax incentives for R&D is inversely proportional to the size of the company. For every euro of tax assistance received, small businesses (fewer than 50 employees) invest more than €1.4 in R&D, medium-sized businesses (50-249 employees) invest €1, and large businesses (250 or more employees) invest only €0.4. However, these disparities disappear when the initial R&D expenditure of each company is taken into account in the analysis. It can therefore be concluded that if tax incentives for R&D stimulate R&D activity in small companies, this is not only because of their size, but also because they are generally less active in this area⁸."

In light of these findings, it is clear that the March 2025 reform could increase the tax burden without generating the expected effects—not because it targets the wrong actors, but because it relies on the wrong mechanism to reach them.

To determine the extent to which trends observed in the OECD could minimize the effective impact of the reform, the Centre for Productivity and Prosperity – Walter J. Somers Foundation conducted econometric analyses based on administrative data from tens of thousands of Canadian companies to identify the extent to which their response to tax incentives fluctuated according to their size.

6 OECD (2020), "[The effects of R&D tax incentives and their role in the innovation policy mix: Findings from the OECD microBeRD project, 2016-19](#)", OECD Science, Technology and Industry Policy Papers, n° 92, OECD Publishing, Paris.

7 Source: OECD (2016), "[R&D Tax Incentives: Evidence on Design, Incidence and Impacts](#)", OECD Science, Technology and Industry Policy Papers, n° 32, OECD Publishing, Paris.

8 Free translation. Source: OECD (2020). [Qu'en est-il de l'efficacité des incitations fiscales en faveur de la R-D? Nouveaux éléments issus du projet microBeRD de l'OCDE](#). STI Policy Note. Page 4

5 Kim, M. and Lester, J. (2019). [R&D spillovers in Canadian industry: Results from a new micro database](#). Centre for the study of living standard. CSLS Research Report 2019-02

Unlike international comparisons, where incentive regimes differ considerably, the Canadian framework offers an environment that is particularly conducive to empirically identifying the effects of taxation on SR&ED. Not only are provincial tax regimes relatively homogeneous, but nine of the ten Canadian provinces—including Quebec—offer tax credits similar to those offered by the federal government, with parameters that vary significantly over time. This context makes it possible to isolate the effect of tax incentives without having to resort to endogenous measures such as the B-index, a synthetic indicator commonly used in international studies to compare the generosity of SR&ED incentive regimes⁹.

Consistent with the OECD's findings, our analyses indicate that the effectiveness of provincial SR&ED credits decreases as the size of companies increases. Furthermore, our results show that higher rates do not translate into additional SR&ED efforts on the part of large companies. On the contrary, they appear to adjust their spending based on the generosity of the tax system, a dynamic that resembles tax optimization and suggests that the revision of the tax framework supporting innovation will not produce the desired effects, as the reform was clearly not significant enough to reach the targeted niches.

The rest of this report is organized as follows. The first section lays the groundwork for the analysis by placing Quebec's lag in SR&ED in historical perspective and then briefly presenting the reform framework¹⁰. The second section briefly describes the econometric approach. A detailed description is provided in the appendix. Based on both the results obtained and a survey of practices in the main OECD member countries, the third section offers recommendations for maximizing the effectiveness of government intervention.

9 The B-index was developed in the 1990s by the OECD to compare the generosity of SR&ED tax incentives between countries. It measures the net cost, after tax, of a dollar invested in SR&ED, taking into account credits, deductions, and the corporate tax rate. See, in particular: Warda, J. (2001). [Measuring the Value of R&D Tax Provisions](#). OECD STI Review, n°27; OECD (2023), OECD R&D Tax Incentives Database – B-index methodology.

10 For a detailed description of SR&ED tax credits, readers are invited to consult the report *Crédits d'impôt relatifs à la recherche scientifique et au développement expérimental: constats et propositions*, published by the Research Chair in Taxation at the University of Sherbrooke. Source: Godbout, L., Latulippe, L., and M. Robert-Angers (2024). [Crédits d'impôt relatifs à la recherche scientifique et au développement expérimental: Constats et propositions](#). Analysis of tax expenditures 2024. Chair in Taxation and Public Finance. Université de Sherbrooke. Research paper 2024/13

OUTLOOK ON THE STATE OF SR&ED IN QUEBEC

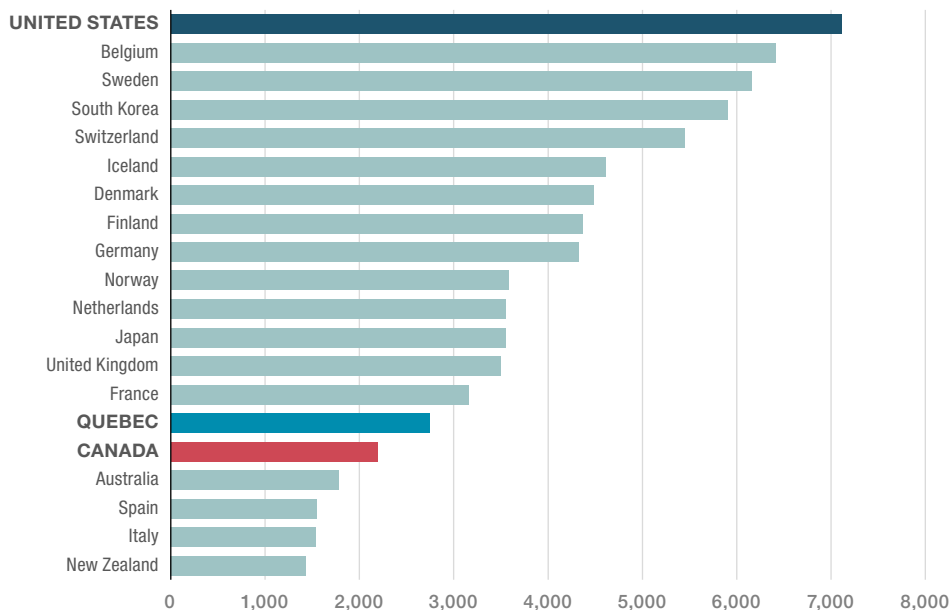
Quebec businesses lag significantly behind in terms of SR&ED. In 2023, they spent \$2,743 per job on SR&ED (Figure 1), placing Quebec among the lowest-ranked economies in the OECD group. Only five jurisdictions posted lower results, including Canada.

The gap between Quebec and the economies that rank higher is also considerable. France, for example, invests 15% more per job, yet ranks only one place higher than Quebec. Germany and Denmark invest about 60% more, yet rank in the middle of the pack. Quebec's lag behind the leading economies is therefore a cause for concern: on average, companies in the United States, Belgium, and Sweden spent at least 2.2 times more than those in Quebec on SR&ED, the equivalent of an additional C\$3,410 per job at purchasing power parity.

FIGURE 1
SR&ED EXPENDITURES PER JOB IN THE BUSINESS SECTOR, 2023*

In 2023 Canadian dollars per job at purchasing power parity

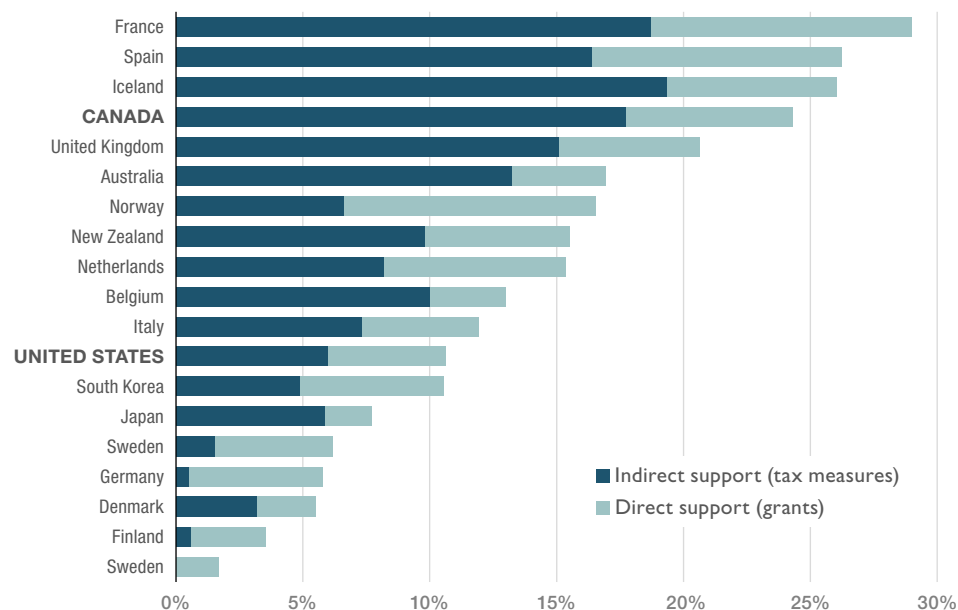
*Except Australia (2021)



The weakness of private SR&ED in Canada cannot be attributed to a lack of public support. In 2023, public administrations covered 20% of private SR&ED expenditures, placing the country 4th in the OECD19 ranking (Figure 2). However, this comparison highlights that the level of public support alone cannot explain the differences observed in private investment. For example, France tops the ranking even though the intensity of SR&ED among French companies remains relatively modest, while several economies that are very SR&ED-intensive are in the bottom half of the ranking.

FIGURE 2
PROPORTION OF BUSINESS SECTOR R&D EXPENDITURE BEARED BY PUBLIC ADMINISTRATIONS, 2023*

*Except Australia (2021), Belgium (2022), Italy (2022), United States (2022)



The fact that private SR&ED intensity in Quebec and across Canada remains low despite increased financial support from public administrations raises questions about the effectiveness of the intervention mechanisms in place and tends to justify the March 2025 review of SR&ED support policies. That said, it also raises questions about the form of the mechanisms chosen to improve the effectiveness of government intervention. To put these issues in a broader perspective, a very brief review of the origins of the SR&ED support policy is in order.

TRAJECTORY AND LIMITS OF TAX SUPPORT FOR SR&ED

The Government of Canada has supported private SR&ED through tax incentives since 1944¹¹. Given the parameters of the tax system at the time, the assistance initially took the form of a deduction from taxable income for salary and capital expenditures incurred in connection with SR&ED activities, which avoided treating these expenditures as future intangible assets that had to be capitalized and amortized. In this form, the assistance benefited only profitable companies, which led the federal government to implement a grant program between 1967 and 1975 to support companies that did not have any taxes to pay.

The foundations of the current tax assistance scheme took shape in 1977 with the introduction of the scientific research tax credit. Originally, rates were adjusted according to the size of the companies and their location, and the credit covered salary and capital expenditures. The program was refined during the 1980s¹² with the addition of conditional refundability criteria to provide liquidity to companies that did not have taxes to pay.

In 1983, Quebec followed the federal government's lead by becoming the first province to offer a research and development tax credit¹³. Unlike the federal credit, the Quebec credit provides for full reimbursement of eligible expenses. However, only salary expenses are considered eligible.

11 This brief historical overview of the evolution of the federal R&D credit is based on the Government of Canada's document [Evolution of the SR&ED Program – a historical perspective](#).

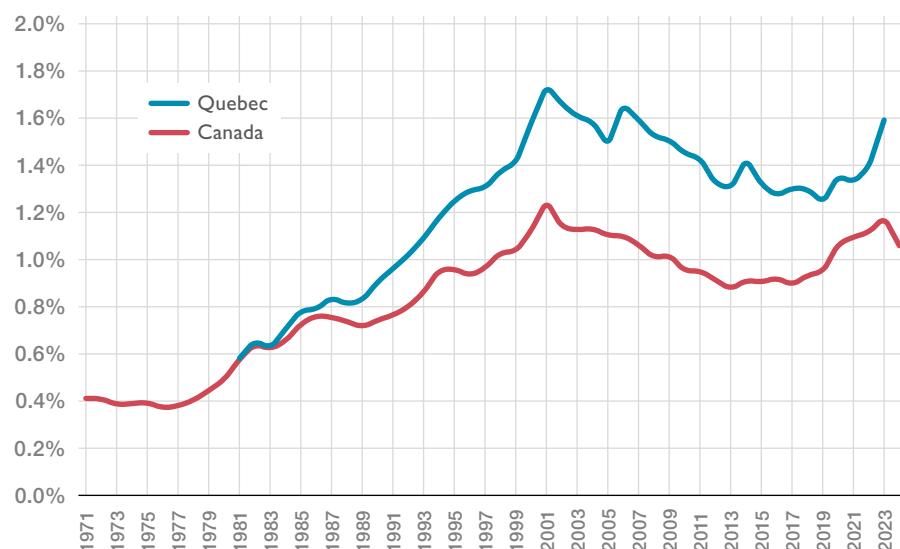
12 "1983 also saw the introduction of a partial refund of unused tax credits of 20% for large corporations. In the case of small CCPCs, the rate was 100% on the first \$2 million of eligible expenditures, 40% on capital property, and 40% on expenditures related to research. The federal government introduced this refund to ensure that small CCPCs with no tax payable would also benefit from the tax incentives." In 1985, "The tax credit earned by small Canadian-controlled private corporations for current expenditures on R&D was made 100% refundable. The full amount of the credit earned was made available to the taxpayer, either as a reduction of tax liability or as a cash refund." Source: [Evolution of the SR&ED Program – a historical perspective](#).

13 This measure was announced in the [Budget speech](#) of May 10, 1983. The key parameters of the initial credit terms are set out on page 25 of the document and detailed on pages 41-42.

Despite numerous changes in the parameters of these credits, the tax approach of the Canadian and Quebec governments has remained essentially unchanged in substance over the past four decades. The federal government's 2014 decision to remove capital expenditures from the eligible base is probably the only notable change in the design of the programs¹⁴.

Although it is not possible to establish a causal relationship, the tax strategy of public administrations has been accompanied by a significant increase in private SR&ED spending in Canada. After stagnating for most of the 1970s, the intensity of private SR&ED spending increased sharply (Figure 3). Between the low point in 1977 and the peak in 2001, the weight of private SR&ED spending tripled, rising from 0.4% of GDP to 1.3% of GDP. Growth was even faster in Quebec. At the peak in 2001, companies in the province were spending the equivalent of 1.7% of GDP.

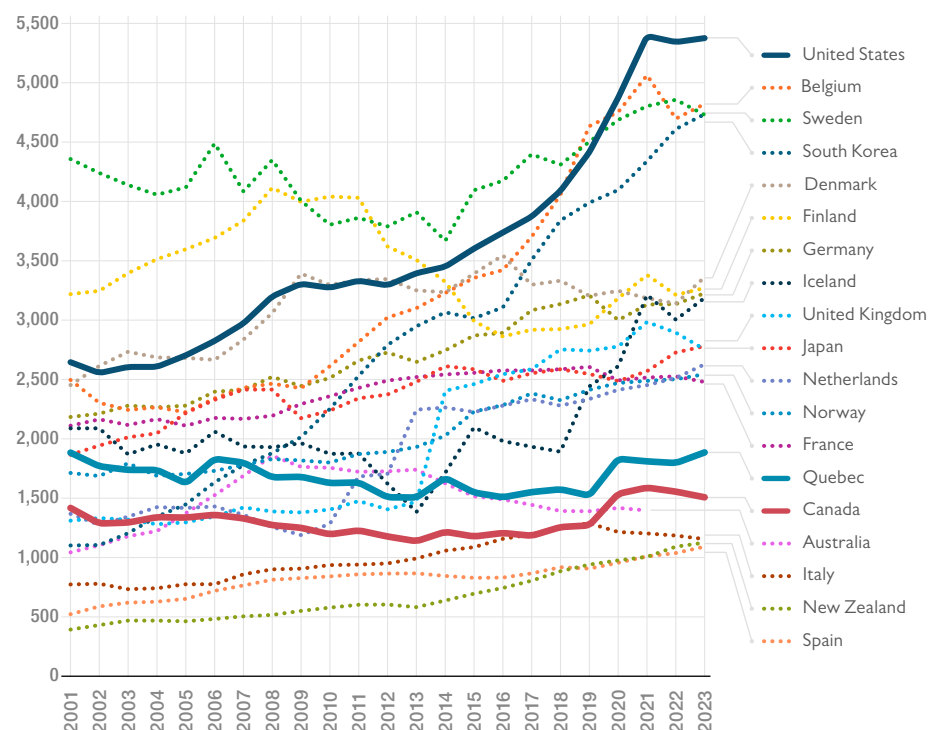
FIGURE 3
CHANGES IN BUSINESS SECTOR SR&ED EXPENDITURE AS A PERCENTAGE OF GDP FOR THE ECONOMY AS A WHOLE



¹⁴ Source: [Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy](#). In *Budget 2025: Canada Strong*, the Government of Canada confirms the reinstatement of capital expenditure eligibility for property acquired after December 15, 2024.

Although the causal link between Quebec's tax policy and the increase in private R&D spending during the 1980s and 1990s remains difficult to establish, it is clear that any potential effect subsequently faded. After the tech bubble burst in 2001, the share of SR&ED spending in GDP declined almost continuously, and it was not until the turn of the 2020s that it began to increase again. Unable to stimulate private SR&ED intensity, Quebec and Canada as a whole have gradually fallen behind in the OECD rankings (Figure 4). The province is now at the bottom of the pack, whereas 20 years ago it was in the middle.

FIGURE 4
SR&ED EXPENDITURE PER EMPLOYEE IN THE BUSINESS SECTOR
In 2020 US dollars per job at purchasing power parity



A TAX POLICY OUT OF STEP

The slowdown in private SR&ED in Quebec is part of a context of major structural transformations in the Quebec economy.

During the 1990s, private spending on SR&ED in Quebec was driven by increased manufacturing activity¹⁵, particularly because exports from low-tech industries – traditional sectors – were boosted by the depreciation of the Canadian dollar against the US dollar. Although these industries are not very SR&ED intensive – technology levels are defined on the basis of SR&ED expenditures¹⁶ – they nevertheless contributed to the acceleration of private SR&ED expenditures. At the same time, the emergence of the new technology sector contributed significantly to the growth of private SR&ED spending by concentrating an increasing share of research efforts in more technology-intensive activities. At the end of the 1990s, the manufacturing sector generated nearly 60% of private SR&ED spending in Quebec. And at its peak in 2001, the high-tech sector alone generated 37.6% of private SR&ED in Quebec, with an estimated economic weight of 5.2% of the business sector's GDP enterprises¹⁷.

At the turn of the millennium, the bursting of the technology bubble took manufacturing companies that were highly intensive in SR&ED with it, a shock amplified by the contraction of the pharmaceutical industry. Real corporate spending on SR&ED then plummeted. With low-tech industries also vulnerable to exchange rate fluctuations and international competition, manufacturing activity gradually declined as the Canadian currency appreciated and Asian competition intensified, further limiting the economy's capacity to generate SR&ED.

While SR&ED intensity per job stagnated and its relative importance in GDP declined, the Quebec government limited itself to parametric changes in its tax strategy. The base rate and enhanced rate were lowered in 2003, then in 2005, the enhanced rate was raised. The eligibility criteria for the enhanced rate relating to company size were then broadened in 2006, and in 2008, the level of expenses eligible for the enhanced rate was raised¹⁸. In other words, the government limited itself to parametric management of tax policy, without questioning its marginal effectiveness.

15 For more details on the bursting of the tech bubble and, more generally, the collapse of the manufacturing sector in Quebec, see Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, [Manufacturier 4.0: dynamiser l'activité manufacturière au Québec](#), Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, September 2019.

16 Developed by Hatzichronoglou, T. (1997), this classification divides manufacturing industries into four categories based on the direct and indirect intensity of their research and development (R&D) activities. The low technology sector includes industries that conduct little R&D. These include the food, textile, clothing, paper, and consumer goods industries. Next in order are the medium-low technology sector, which includes industries related to the processing of natural resources; the medium-high technology sector, which includes, among others, industries related to the manufacture of machinery and transportation equipment; and the high technology sector, which includes industries known to be R&D-intensive: pharmaceuticals, aerospace, information technology, and telecommunications. Source: Hatzichronoglou, T. (1997), ["Revision of the High-Technology Sector and Product Classification"](#), OECD Science, Technology and Industry Working Papers, 1997/02, OECD Publishing. For the breakdown of manufacturing industries by technological level according to the NAICS classification, see Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, [Manufacturier 4.0: dynamiser l'activité manufacturière au Québec](#), Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, September 2019. Page 16

17 Calculation based on Statistics Canada tables #27-10-0024-01 (formerly CANSIM 358-0161) – Business enterprise expenditure on research and development characteristics, by geography and industry, and #36-10-0480-01 (formerly CANSIM 383-0033) – Labour productivity and related measures by business sector industry and by non-commercial activity consistent with the industry accounts.

18 For updates on changes to the parameters of the various tax credits offered by the Government of Quebec, consult the various editions of the document [Dépenses fiscales](#) of the Quebec government.

To the government's credit, the number of beneficiaries (Figure 5) and the nominal cost of the tax expenditure (Figure 6) continued to increase during this period, suggesting that the tax strategy remained effective. The economy thus found itself at an impasse when structural adjustments stabilized in the late 2000s¹⁹. Without being recalibrated, fiscal policy was clearly no longer meeting the needs of businesses. At the end of the 2000s, the number of beneficiaries plummeted.

The decline was particularly pronounced among small businesses (Figure 5), but fundamentally, the disaffection with credit was widespread. In 2022, there were 60% fewer small business beneficiaries than at the peak in 2008, while among medium and large businesses, the decline was approximately 50%.

In 2014, the Quebec government made across-the-board cuts to its programs in order to restore fiscal balance. The generosity of the main SR&ED credit was thus reduced marginally: the base rate fell from 17.5% to 14%, and the enhanced rate fell from 37.5% to 30%. That same year, a threshold for excluding eligible expenses was introduced, as the government believed that "in some cases, the administrative costs associated with applying for the tax credit may exceed the tax assistance granted²⁰". The threshold is set at \$50,000 for small businesses and increases linearly to a maximum of \$250,000 for larger businesses.

FIGURE 5

CHANGE IN THE NUMBER OF SR&ED CREDIT RECIPIENTS IN QUEBEC BY BUSINESS SIZE

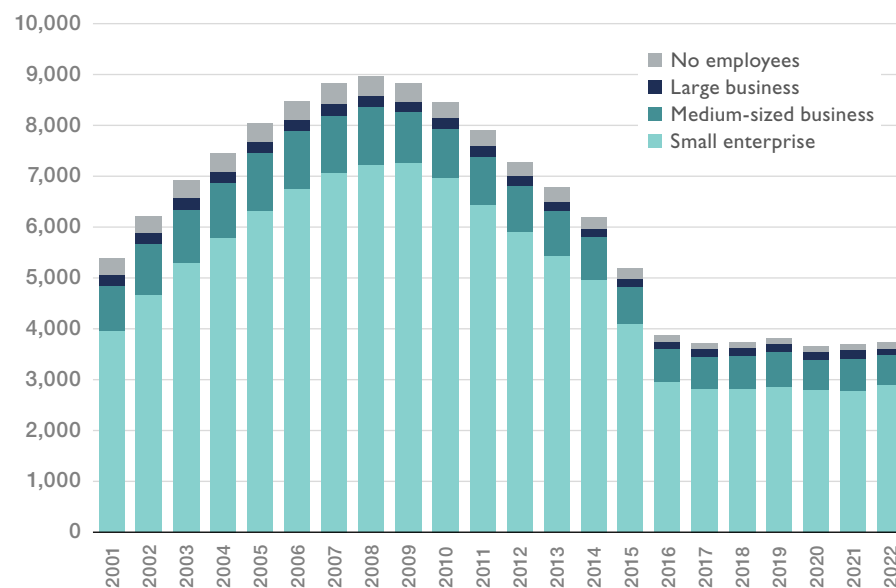
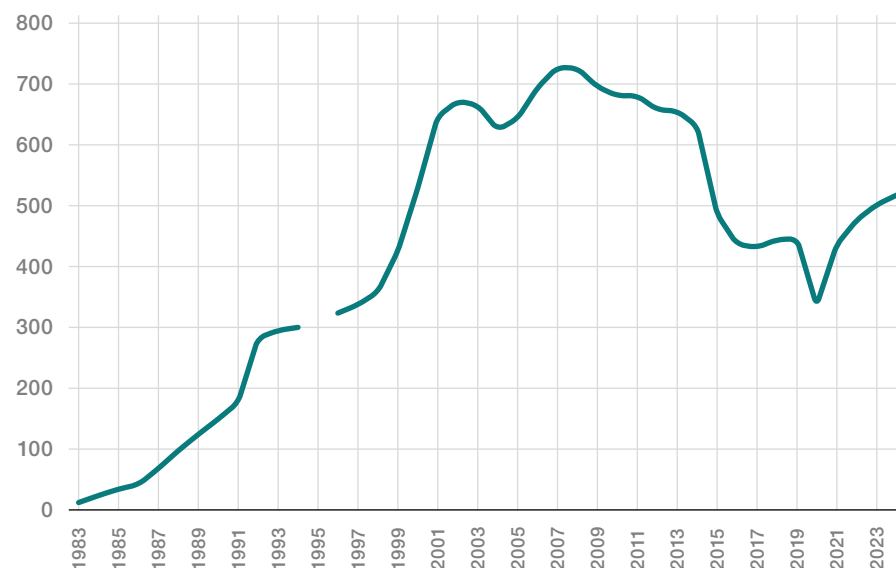


FIGURE 6

CHANGE IN THE NOMINAL COST OF SR&ED CREDITS IN QUEBEC

In millions of dollars

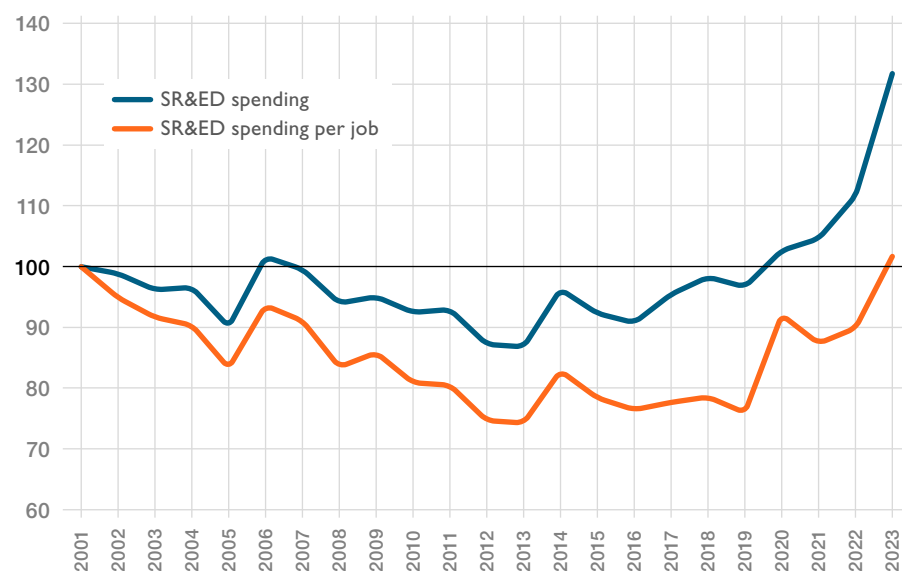


¹⁹ For more details, see Deslauriers, Jonathan, Robert Gagné, and Jonathan Paré, *Mémoire présenté par le Centre sur la productivité et la prospérité – Fondation Walter J. Somers dans le cadre des consultations pour combler l'écart de niveau de vie entre le Québec et ses principaux partenaires*, Centre for Productivity and Prosperity (CPP) – Walter J. Somers Foundation, HEC Montréal, August 2023.

²⁰ Free translation. Source: Government of Quebec (2014). [Le Point sur la situation économique et financière du Québec – Automne 2014](#). Finances Québec. Page D-37

Despite tighter credit conditions, real business spending on SR&ED recovered slightly in the second half of the 2010s, then accelerated at the turn of the 2020s (*Figure 7*), a sign that not only reflects the waning impact of fiscal policy, but also tends to show that its generosity is probably not the main cause of poor business performance. In 2023, the intensity of private SR&ED in Quebec reached the peak achieved in 2001 for the first time. In the meantime, however, the Quebec government will have foregone more than \$12.5 billion in tax revenue²¹ to finance this credit, a significant budgetary expense considering the cumulative lag behind the major Western economies over the same period.

FIGURE 7
**CHANGES IN ACTUAL SR&ED EXPENDITURES IN THE BUSINESS
 SECTOR IN QUEBEC IN ABSOLUTE VALUES AND PER EMPLOYEE**
 2001=100



²¹ According to ISQ data, the Quebec government has foregone approximately \$12.5 billion between 2000 and 2022 (forecast) for the wage tax credit alone. Source: ISQ. [Value of tax support for industrial R&D from the government of Québec, 1997-2022 \(in French only\)](#).

THE REFORM

Aware that "Québec's current tax assistance system for innovation is complex, and R&D results in recent years indicate that changes are needed [...] the government is introducing, in Budget 2025-2026, a new simplified tax assistance system for innovation²²".

TABLE I
LIST OF ABOLISHED TAX MEASURES²³

ABOLISHED MEASURES	KEY PARAMETERS	Use of the measure in 2023-2024
Refundable tax credit (RTC) for R&D salaries	Rate: 30% on the first \$3 million of eligible expenses (SMEs) 14% (large enterprises) Exclusion threshold: \$50,000 (SMEs) \$225,000 (large enterprises) Eligible expenses: - R&D salaries or 50% of the cost of an outsourced R&D contract	3,702 beneficiaries at a cost of \$557.4 million
R&D RTC for university research	Rate: 30% (SMEs) 14% (large company) Exclusion threshold: - None Eligible expenses: 80% of the amount of an R&D contract with a university, public research center, or research consortium	135 beneficiaries at a cost of \$4.2 million
R&D RTC for precompetitive research in private partnership	Rate: - Same as those for the RTC R&D for researcher salaries Exclusion threshold: - None Eligible expenses: 100% of the current R&D expenses of an eligible project 80% of the amount of a subcontracted R&D contract	20 beneficiaries at a cost of \$0.8 million

The reform has two objectives. On the one hand, it aims to simplify the tax incentives for innovation, which are considered cumbersome, complex, and often out of reach for small businesses with limited resources. On the other hand, it substantially improves the assistance offered to businesses. With this in mind, eight tax measures have been abolished – most of them marginal (*Table I*) – in order to concentrate the tax offer within a single measure, the tax credit for research, innovation, and commercialization (CRIC).

ABOLISHED MEASURES	KEY PARAMETERS	Use of the measure in 2023-2024
R&D RTC for contributions and fees paid to a research consortium	Rate: - Same as those for the R&D RTC Exclusion threshold: - None Eligible expenses: 100% of the amount of fees and contributions to a consortium	27 beneficiaries at a cost of \$0.9 million
RTC for design (industrial design component)	Rate: 24% (SME) 12% (large enterprise) Eligible expenses: - Salaries of designers or pattern makers 65% of the subcontract amount Annual salary cap per employee: \$60,000 for a designer \$40,000 for a pattern maker	108 beneficiaries at a cost of \$5.2 million
RTC for technology adaptation services	Rate: 40% Eligible expenses: 80% of fees for liaison and transfer services provided by a <i>centre collégial de transfert de technologie</i> (CCTT) or a <i>centre de liaison et de transfert</i> (CLT)	105 beneficiaries at a cost of \$1.6 million
Tax break for foreign researchers	Individual income deduction: 100% for the first two years 75%, 50%, and 25% respectively for the following three years	379 beneficiaries at a cost of \$8.7 million
Tax break for foreign experts	Individual income deduction: 100% for the first two years 75%, 50%, and 25% respectively for the following three years	204 beneficiaries at a cost of \$2.4 million

22 Source: Government of Quebec (2025). *Budget 2025-2026: For a Strong Québec – Budget Plan*. Finances Québec, March 2025. Page A.12. For more details on the proposed reform of its tax assistance strategy for scientific research and experimental development, see also: Government of Quebec (2025). *Budget 2025-2026: For a Strong Québec – Innovating to Prosper*. Finances Québec, March 2025.

23 Source: Government of Quebec (2025). *Budget 2025-2026: For a Strong Québec – Innovating to Prosper*. Finances Québec, March 2025. This table is a reproduction of part of Table 2 – Overview of the nine tax measures to support innovation – 2023-2024 (page 16) and Table 4 – Summary of changes to the tax assistance for innovation announced in Budget 2025-2026 (pages 31-32).

Fundamentally, the tax mechanism remains unchanged. In an effort to reach as many businesses as possible, the government grants tax assistance regardless of the nature of the activities carried out or the industry in which they are carried out. That said, significant changes have been made to the parameters of this assistance.

Capital expenditures are now eligible, which broadens the credit base to include tangible and intangible investments necessary for SR&ED activities and changes the nature of government intervention by supporting business investment efforts rather than focusing assistance on employment. Pre-commercialization activities are also covered by the CRIC, extending tax support beyond the SR&ED phase itself to include the intermediate stages leading to commercialization. The reform therefore shifts the scope of public intervention toward the downstream end of the innovation process. Prior to the reform, these activities were only partially covered, and under strict conditions, by the tax credit for technology adaptation services and the design credit, measures that were rarely used by businesses.

In addition to broadening the scope of eligible expenses, the reform abolishes the sliding scale of rates based on company size. From now on, all companies can benefit from the enhanced rate of 30%, subject to compliance with the exclusion threshold for eligible expenses. The terms of the threshold have also been redefined: it now corresponds to the greater of \$50,000 and the "the basic personal amount under the personal income tax system applicable for each employee [assigned to SR&ED], adjusted to the proportion of their time spent carrying out eligible R&D or pre-commercialization activities"²⁴. Finally, the base rate is increased to 20% and applies to the portion of eligible expenses exceeding \$1 million.

Without breaking with the support framework of the last forty years – nearly 95% of the tax assistance granted before the reform already went through a single credit – the changes in parameters initiated by the reform aim to correct certain distortions.

Under the old regime, the exclusion of capital expenditure implicitly directed tax assistance towards labor-intensive projects, since only R&D salaries were eligible for the credit. In the absence of tax support for capital investments, projects requiring equipment, infrastructure, or technological assets were at a disadvantage, with the risk being borne entirely by the company.

The degressive rates based on company size also created distortions. By using the value of taxable capital to determine access to preferential rates, the system penalized more capital-intensive companies. Two small companies with the same number of employees could thus receive different levels of tax support, effectively reducing incentives for productive investment. Similarly, growing companies could lose access to preferential rates precisely when their projects became more ambitious, more capital-intensive, and riskier.

Although not explicitly stated, the economic logic underlying the reform goes beyond these parametric adjustments. The underlying idea is that the benefits of SR&ED systematically extend beyond the scope of the company, which means that the reform structurally favors larger companies.

24 Source: Government of Quebec (2025). *Budget 2025-2026: For a Strong Québec – Innovating to Prosper*. Finances Quebec, March 2025. Page 29

SOCIAL RETURNS AND TARGETING LOGIC

When a company invests in research or innovation, a significant portion of the profits generated are distributed to its suppliers, partners, or even competitors. This phenomenon justifies public intervention: by supporting private R&D, the government is not only financing the company, but also an innovation system that extends beyond the company's framework. However, these spillover effects are more pronounced when the activities originate from large companies.

Based on data from Canadian companies, Kim and Lester (2019) conclude that the internal and external rates of return on SR&ED in Canada are higher when these activities are carried out by large companies:

"private rate of return on R&D is much higher for large than for small firms, about 53% compared to 17%. [...] The external rate of return on R&D performed by small firms is about 19%, while the rate calculated for large firms is approximately 52%"²⁵

In other words, the social return on SR&ED activities by large companies is three times higher than that of small companies.

It is therefore assumed that by increasing the credit offered to large companies, the government is seeking to stimulate innovation by taking advantage of the external benefits generated by their activities. That said, the reform overlooks a fundamental reality: the effectiveness of tax assistance declines as the size of companies increases.

Because they are generally better capitalized and more comfortable with financial uncertainty, and because they face more intense competition, large companies are naturally encouraged to invest in SR&ED, regardless of tax support, which is not the case for smaller companies (see Czarnitzki (2006) in particular). For this reason, tax incentives tend to be more effective when directed toward SMEs (see Czarnitzki and Hottenrott (2011), among others). Following the same logic, tax incentives are generally more effective when directed toward companies that engage in little or no SR&ED.

These effects have been clearly measured at the OECD level: "For every euro of tax aid received, small businesses (fewer than 50 employees) invest more than €1.4 in R&D, medium-sized businesses (50-249 employees) invest €1, and large businesses (250 or more employees) invest only €0.4²⁶" The analysis also reveals that the effectiveness of tax incentives decreases with the initial level of SR&ED spending: for every euro of tax assistance received, companies that invested less than US\$400,000 in SR&ED increased their spending by €1.75, compared to €1 for those that invested between US\$400,000 and US\$2 million. The effect was zero or negative above this threshold. The conclusion drawn from the analysis is therefore clear: "if tax incentives for R&D stimulate R&D activity among small businesses, it is not only because of their size, but also because they are generally less active in this area²⁷."

Such results raise serious doubts about the reform's ability to produce the desired ripple effect, as the impact on large companies has been marginal at best.

26 Free translation. Source: OCDE (2020). [Qu'en est-il de l'efficacité des incitations fiscales en faveur de la R-D? Nouveaux éléments issus du projet microBeRD de l'OCDE](#). STI Policy Note. Page 4

27 Idem

25 Kim, M. and Lester, J. (2019). [R&D spillovers in Canadian industry: Results from a new micro database](#). Centre for the study of living standard. CCLS Research Report 2019-02. Pages 44-45

THE EFFECTIVENESS OF SR&ED TAX INCENTIVES IN A CANADIAN CONTEXT

In light of the findings at the OECD level – and their implications for Quebec's reform – econometric analyses were conducted at the Canadian level to assess whether, and to what extent, the effectiveness of tax credits varied according to the size of the companies. This section briefly presents the approach and the main results. Descriptive statistics, detailed results, and certain sectoral regressions are presented in a [methodological document](#) available online.

The analysis pursues the same objective as the OECD, but simplifies the mechanics.

In its work on the effectiveness of SR&ED tax incentives, the OECD relies on aggregated microdata provided by the tax authorities of member countries as part of the database on R&D tax incentives. This approach allows for the production of comparable series between countries without the OECD having direct access to harmonized microdata from companies in all countries. In this study, the analysis is conducted at the enterprise level thanks to privileged access to Statistics Canada's *Business Research Microdata* (BRM), a vast database covering the tax and administrative records of enterprises, including data from the Business Register, T2 returns, Schedule 32 on R&D, as well as T4 slips and PD7 forms for workers²⁸.

In order to make highly heterogeneous tax systems comparable, the OECD also uses the B-index to measure the generosity of SR&ED tax incentives. The B-index estimates the net cost to the company of one dollar invested in SR&ED, after taking into account all applicable credits, deductions, and other tax measures. This measure is then adjusted to take into account the strictness of the corporate tax system in each country, the idea being that a higher tax rate automatically increases the net value of tax incentives, all other things being equal²⁹.

Although it is a useful tool for international comparisons, the B-index poses significant endogeneity problems when used to identify the causal effect of tax incentives on SR&ED spending. Its value depends not only on the parameters of the tax system, but also on the company's performance and its SR&ED choices. In other words, the variable that is supposed to measure the intensity of tax incentives is itself influenced by the variable it is supposed to explain.

28 The Business Register (BR) provides information on the identification of businesses, their sector of activity, their size and organizational structure. T2 tax returns contain detailed financial information about companies, including their revenues, expenses, and assets. Schedule 32 (or equivalent forms depending on the year) and Form T661 provide detailed documentation of eligible scientific research and experimental development (SR&ED) expenses. T4 slips and PD7 forms are used to measure employment and payroll based on source deductions, making it possible to calculate SR&ED intensity per job. For more details, see Statistics Canada's Economic Analysis Division information document entitled [Business Research Microdata \(BRM\)](#).

29 The **B-index** measures the net cost, after tax, of a dollar invested in SR&ED for a company representative. It is defined as:

$$B = \frac{1-A}{1-\tau}$$

where A represents the present value of all SR&ED tax incentives (tax credits, deductions, accelerated depreciation), expressed per dollar of eligible expenditure, and τ is the statutory corporate tax rate. A lower B-index indicates a more generous tax regime.

Source: Warda, J. (2001), [Measuring the Value of R&D Tax Treatment In OECD Countries](#), OECD STI Review, n° 27; OECD (2023), [OECD R&D Tax Incentives Database – B-index methodology](#).

In this context, the generosity of provincial tax incentive programs was measured based on the statutory rates of SR&ED credits, which constitute a source of exogenous variation from the perspective of businesses. When rates vary according to the value of assets or the level of SR&ED expenditures, the tax incentive is established based on the rate applicable to the first dollars spent³⁰, so as to capture the initial marginal incentive. The federal credit is excluded from the analysis because it applies uniformly across Canada and therefore does not generate any variation that can be exploited econometrically. The value of SR&ED expenditures at the enterprise level is extracted from tax forms for the federal R&D credit claim³¹.

The analysis covers the period 2000–2019. More recent data were available, but they were excluded to avoid considering the shock inherent in the management of the COVID-19 pandemic.

The effectiveness of provincial tax incentive programs was assessed by analyzing changes in SR&ED spending by Canadian companies that claimed the federal credit, as it was not possible to identify those conducting SR&ED activities without public support. In the case of Quebec, it is assumed that companies claiming the federal credit also benefited from the provincial credit, as Revenu Québec data was not available for research purposes. Prince Edward Island is excluded from the analysis because it does not offer an SR&ED credit. Alberta, on the other hand, is included because it has offered a credit since 2009.

The impact of tax incentives was assessed using three separate measures of SR&ED spending at the company level, partly to ensure that the results did not depend on a particular definition of SR&ED effort, but mainly to distinguish the channels through which tax incentives can operate:

- **The level of the company's SR&ED spending**, which captures the effect of tax incentives in absolute terms. Less accurate due to its sensitivity to scale effects – SR&ED spending increases automatically with the size of the company and the scope of the projects undertaken – this measure is nevertheless a useful starting point for assessing whether companies respond positively to an increase in rates.
- **The relative value of SR&ED expenditures compared to total company expenditures**, which makes it possible to distinguish the portion of the increase in SR&ED expenditures attributable to a change in tax policy parameters from that resulting from a "natural" increase in the company's volume of activity.
- **The intensity of SR&ED per job**, with employment measured using PD7 source deduction forms. This measure neutralizes both size effects and fluctuations in overall activity by expressing SR&ED per unit of labor. This is the central measure of the analysis in that it captures an effect more directly related to the productivity of SR&ED efforts.

30 In Ontario, businesses benefit from a differentiated rate based on their taxable capital. Since this information is not available in the database, rates are assigned using information on federal enhanced rate holders.

31 In this case, Schedule 31 of T2 – Investment Tax Credit – Corporations and Schedule 32 – Claim for Scientific Research and Experimental Development (SR&ED) carried out in Canada (Form T661). For more details, see the information document from Statistics Canada's Economic Analysis Division entitled [Business Research Microdata \(BRM\)](#).

Business size was defined based on the number of employees rather than on the taxable capital of businesses (Ontario system) or the value of their assets (Quebec system), which makes it possible to measure the effect of rate progressivity without imposing the specific parameters of a provincial system. Five distinct categories were created:

- **MI – Microenterprises** (2 to 9 employees);
- **SE – Small Enterprises** (10 to 49 employees);
- **IE – Intermediate Enterprises** (50 to 99 employees);
- **ME – Medium Enterprises** (100 to 499 employees);
- **LE – Large Enterprises** (500 or more employees).

The following equation was estimated for the three selected SR&ED expenditure measures:

$$Y_{i,t} = \beta_1(Rate_{it} * MI_{it}) + \beta_2(Rate_{it} * SE_{it}) + \beta_3(Rate_{it} * IE_{it}) + \beta_4(Rate_{it} * ME_{it}) + \beta_5(Rate_{it} * LE_{it}) + \phi AV_{it} + \alpha_i + \alpha_t + \varepsilon_{it}$$

In this equation, $Y_{i,t}$ represents one of three measures of the company's SR&ED expenditures i for the period t , expressed as a logarithm. The coefficients β capture the response of companies to fluctuations in credit rates by size category. Size categorization is introduced by the interaction between the credit rate and size indicator variables – MI_{it} , SE_{it} , IE_{it} , ME_{it} and LE_{it} – which take the value 1 when the company belongs to the corresponding category and 0 otherwise. The model includes fixed effects for firms (α_i) and time (α_t), as well as a control variable for added value (AV_{it})³². Fixed firm effects play a central role in identification as they neutralize all unobservable characteristics specific to each firm, such as management quality, innovation culture, technological structure, competitive position, or sector affiliation. Fixed time effects control for macroeconomic shocks common to all firms, including the economic cycle, general regulatory changes, and technological trends. In other words, fixed firm effects eliminate the influence of firm-specific characteristics that are constant over time, while fixed period effects neutralize common macroeconomic shocks. The estimate is therefore based on how a company adjusts its SR&ED spending when the generosity of the credit changes, rather than on structural differences between companies.

The database was cleaned to exclude incomplete or outlier observations, companies with only one employee or fewer, those with truncated fiscal years, and companies operating in the agriculture, utilities, health services, education, and public administration sectors. Ultimately, the analyses are based on approximately 275,000 distinct observations, for an average of about 14,000 companies per year.

32 Profits are not considered in the calculation of added value, since negative values would render the logarithmic transformation uncalculable. In this context, added value is measured as the sum of workers' compensation and depreciation of tangible and intangible fixed assets.

RESULTS

Figures 8, 9, and 10 illustrate the regression results by showing the effect of a 1 percentage point increase in the credit rate on the three SR&ED measures analyzed. The complete results are presented in the appendix. The significance threshold of the estimated coefficient is indicated under the size label on each graph. Three stars indicate that the estimate is statistically different from zero at a 1% confidence level ($p < 1\%$). We therefore assume that there is a 1% chance of incorrectly concluding that there is a statistically significant effect. The threshold is 5% when there are two stars, and 10% for one star. In other words, the more stars there are under a category, the more confident we can be that the measured effect is real and not attributable to chance.

The results obtained from the absolute measurement of SR&ED expenditures (Figure 8) are consistent with expectations: the magnitude of the estimated coefficients increases according to the size categories of the companies. In other words, the response of businesses to tax incentives is more pronounced in larger size categories. A one percentage point increase in the rate results in a 0.28% increase in SR&ED expenditures among micro-businesses, with this effect increasing to 0.8% among intermediate and medium-sized businesses. However, the estimated effect is more moderate for large enterprises: a one percentage point increase in the rate results in a 0.56% increase in their SR&ED expenditures. This result could reflect a decrease in the marginal effectiveness of tax incentives beyond a certain point, but it could also reflect the relative size of the research budgets of large enterprises.

When the effects of scale are neutralized by relating the company's SR&ED expenditures to its total expenditures (Figure 9), the trends are reversed, and the magnitude of the estimated coefficients decreases as we move up the size segments. A one percentage point increase in the tax credit rate would thus result in an increase of approximately 1.27% in the share of SR&ED expenditures among micro-enterprises, followed by 1.1% among small enterprises, 0.83% among intermediate enterprises, and 0.36% among medium-sized enterprises. The estimated effect on large enterprises is negative and statistically significant, indicating that an increase in the rate leads to a relative decrease in their SR&ED expenditures.

FIGURE 8
ESTIMATED PERCENTAGE CHANGE IN SR&ED EXPENDITURES
FOLLOWING A ONE PERCENTAGE POINT INCREASE IN THE CREDIT RATE

*The vertical bands indicate the confidence intervals for the estimated coefficients

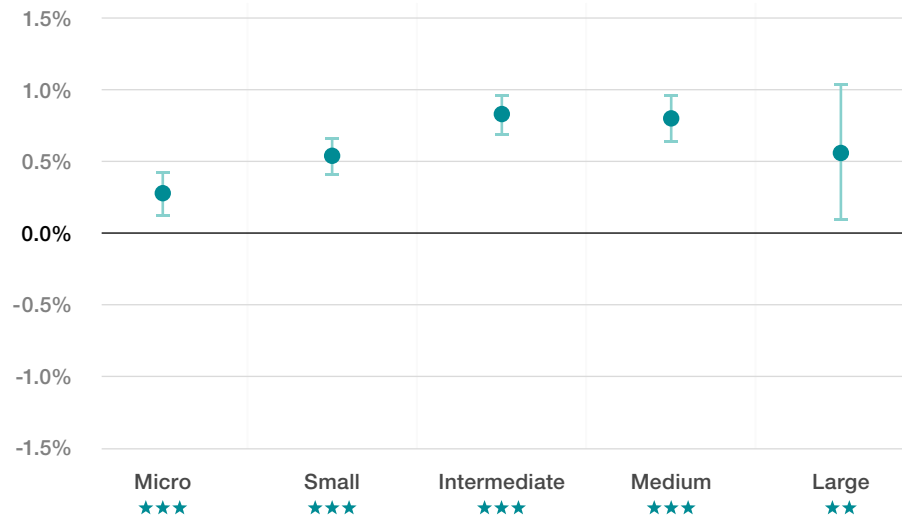
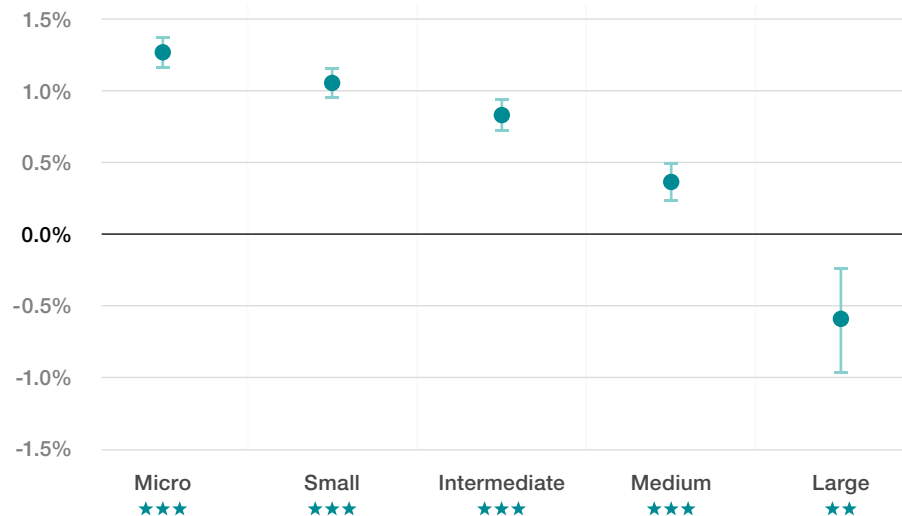


FIGURE 9
ESTIMATED PERCENTAGE CHANGE IN THE SHARE OF SR&ED
EXPENDITURES IN TOTAL BUSINESS EXPENDITURES FOLLOWING
A ONE PERCENTAGE POINT INCREASE IN THE CREDIT RATE

*The vertical bands indicate the confidence intervals for the estimated coefficients



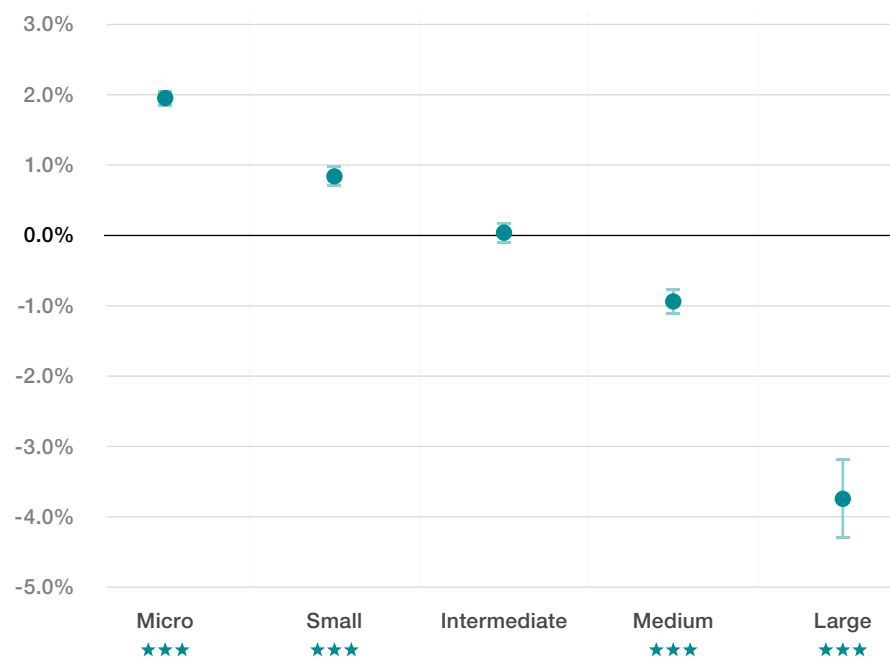
The inverse relationship between firm size and the marginal effectiveness of tax incentives is confirmed when both scale effects and fluctuations in overall activity are neutralized by expressing SR&ED per unit of labor (*Figure 10*).

According to estimates, a one percentage point increase in the tax credit rate would result in a 1.96% increase in SR&ED spending per job in micro-enterprises and a 0.85% increase in small enterprises. The results then become significantly less favorable as we move up to larger size categories. For medium-sized businesses, the estimated effect is close to zero, without being statistically significant, while the estimated effect becomes negative and statistically significant for businesses with 100 or more employees. The magnitude of the estimated effects is significant for large enterprises. Ultimately, a one percentage point increase in the tax credit rate is associated with a 3.73% decrease in SR&ED intensity per job.

FIGURE 10

ESTIMATED PERCENTAGE CHANGE IN SR&ED INTENSITY BY EMPLOYMENT FOLLOWING A ONE PERCENTAGE POINT INCREASE IN THE CREDIT RATE

*The vertical bands indicate the confidence intervals for the estimated coefficients



DISCUSSION, RECOMMENDATIONS, AND CONCLUSION

While the reform announced in March 2025 may seem consistent in terms of its intentions, analyses conducted at the Canadian level show that it will likely increase the tax burden without correcting the structural limitations of the old system because the mechanics of the tax strategy for supporting innovation have not been rethought.

While confirming the OECD's findings – namely that the effectiveness of tax incentives decreases as companies grow in size – the results obtained at the Canadian level highlight a more pronounced dynamic: tax incentives become counterproductive for certain segments of businesses.

In the lower segment, estimates show that a 1 percentage point increase in the enhanced rate ultimately translates into a 1.96% increase in the intensity of SR&ED in micro-enterprises. Expressed in terms comparable to those of the OECD³³ under the parameters of the former Quebec regime, this result corresponds to an effect of approximately \$1.22 of SR&ED per dollar of additional tax assistance³⁴, a positive effect, but already significantly lower than that observed for small businesses in international comparisons³⁵.

In the upper segments, the effect quickly fades and eventually reverses.

For companies with between 10 and 49 employees, the return on additional tax support falls below unity: the government manages to increase the intensity of SR&ED, but at the cost of additional tax expenditure that exceeds the actual increase in SR&ED activities. With no statistically significant effect on medium-sized companies, tax incentives subsequently produce the opposite effect on companies with 100 or more employees. In these segments, the results suggest that an increase in the rate tends to reduce the intensity of SR&ED activities. The effect would be particularly pronounced among large businesses, a worrying empirical finding considering that this segment is at the heart of the reform.

Symptomatic of a system whose parameters no longer generate the desired behaviors, this dynamic suggests a logic of tax optimization.

Given the scale of the underlying projects, larger companies' SR&ED investment decisions are generally part of long-term strategies and are therefore made well in advance of changes in tax parameters. In fact, an increase in rates mainly has an *ex post* effect by reducing the tax cost of expenses that would have been incurred anyway. Tax assistance therefore no longer stimulates additional SR&ED efforts, but rather encourages accounting adjustments, expense reclassifications, or intertemporal trade-offs aimed at maximizing the tax benefit.

33 The OECD estimates are based on the variation in absolute SR&ED expenditures by companies, a measure that is particularly sensitive to size effects, since larger companies automatically spend more on R&D. Although this measure is considered less relevant in the context of this study, the results obtained from this specification indicate that the absolute increase in SR&ED spending remains lower than the additional tax cost resulting from a rate increase, regardless of the size category considered.

34 The estimated coefficient for this category of businesses is 1.96, which means that a 1 percentage point increase in the tax credit rate results in a 1.96% increase in SR&ED expenditures per job, all other things being equal. For example, a company reporting \$1,000 in eligible expenditures in period *t* and benefiting from an enhanced rate of 30% would receive \$300 in tax assistance. Following an increase in the rate to 31%, SR&ED expenditures per job would increase to \$1,019.6, and the corresponding tax benefit would reach \$316.08. The additional tax cost of \$16.08 is thus associated with a \$19.6 increase in SR&ED expenditures, which corresponds to a multiplier effect of approximately \$1.22 of SR&ED per dollar of additional tax assistance.

35 The OECD estimates that for every euro of tax relief received, companies with fewer than 50 employees increase their R&D spending by approximately €1.40. Source: OECD (2020). [*Qu'en est-il de l'efficacité des incitations fiscales en faveur de la R-D? Nouveaux éléments issus du projet microBeRD de l'OCDE*](#). STI Policy Note. Page 4

This interpretation is consistent with the tax statistics of beneficiary companies. In 2019, 91.9% of the 3,565 companies that claimed SR&ED credits in Quebec paid no tax after applying them. Prior to applying them, 70.7% of large companies and 43.9% of SMEs had a positive tax burden³⁶.

Without being able to formally identify the underlying causes, it is reasonable to argue that the permanence of the credit, its full repayability, and the lack of rigorous monitoring of supported projects over time have gradually distorted the measure to the point where public aid no longer plays its role as a lever for investment by large companies, but has become a mechanism for permanently supporting their profitability.

In this context, it is legitimate to doubt that the March 2025 reform will succeed in reversing the trend. By choosing to take a detour rather than completely overhauling its innovation support strategy, the Quebec government has significantly reduced its chances of reviving private investment in SR&ED.

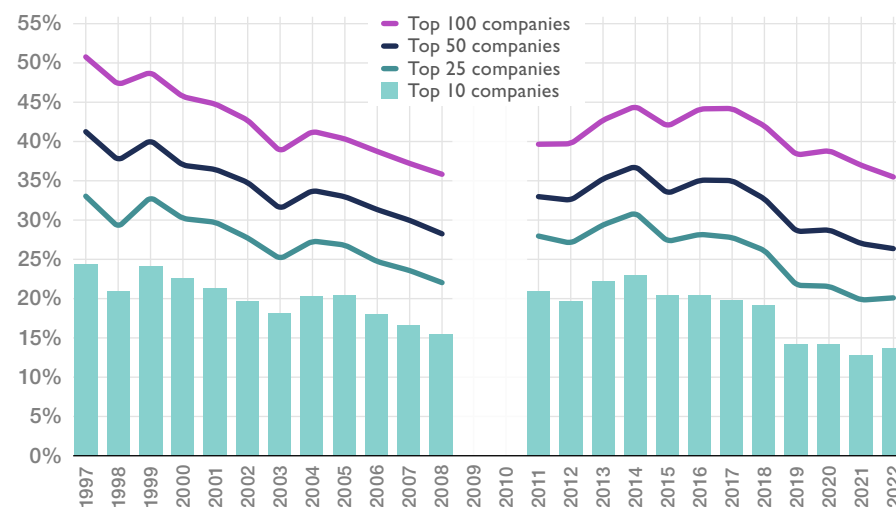
DARE TO OVERHAUL INNOVATION ASSISTANCE

If Quebec truly wants to catch up in terms of innovation, it will have to agree to thoroughly review the logic behind its intervention. Breaking with the approach The strategy to support innovation must be segmented according to the size, structure, and maturity of companies in order to maximize the effectiveness of its intervention, but also to allow for targeted realignment in the event of deviation from the wall-to-wall approach that has historically defined the Quebec government's interventions.

In the case of large companies, the preferred course of action is clear: the government will have to resign itself to providing budgetary assistance. In its current form, the tax system already plays this role: the assistance is permanent and fully repayable, which is effectively equivalent to a subsidy. The only notable difference is that the government has no control over the projects being funded. However, the amounts involved are considerable: between 1997 and 2022, the top 100 recipients of SR&ED credits alone received 41.6% of the tax assistance granted by the Quebec government, or approximately \$6 billion (Figure 11). The government would probably have achieved better results by directly supervising these companies rather than writing them a blank check – the tax expenditure averaged \$2.3 million per company on an annual basis.

FIGURE 11
CONCENTRATION OF QUEBEC GOVERNMENT TAX INCENTIVES FOR SR&ED AMONG BENEFICIARY COMPANIES

Note: Data for 2009 and 2010 are not available in the ISQ series, with the sole mention "Not applicable."



36 Source: Godbout, L., Latulippe, L., and M. Robert-Angers (2024). *Crédits d'impôt relatifs à la recherche scientifique et au développement expérimental: Constats et propositions*. Analysis of tax expenditures 2024. Chair in Taxation and Public Finance. Université de Sherbrooke. Research paper 2024/I3. Pages 29 to 31

The situation is more complex for smaller businesses. Although the results indicate that the status quo is not an option, it must be recognized that the changes brought about by the reform could alter their response to tax incentives, as these business segments are more vulnerable to the financial risk associated with an SR&ED process.

The inclusion of capital investments in eligible expenditures could prove particularly effective in these segments by substantially reducing the financial risk of proposed projects. Similarly, the inclusion of pre-commercialization activities could promote the intensification of SR&ED by reducing financial uncertainty downstream in the process. In these circumstances, the March 2025 reform could be used as a testing ground for a major overhaul, which means that its effectiveness will have to be closely monitored to verify whether the adjustments made actually result in a measurable increase in SR&ED. In the absence of concrete results in the short term, fundamental changes will have to be made quickly, and the government must prepare for this now.

In this regard, a survey of tax practices in 16 OECD member countries³⁷ (presented in the appendix at the end of this document) leads to two findings that are difficult to ignore. On the one hand, it shows that the generosity of a tax program does not guarantee its effectiveness. Beyond a certain threshold, increasing tax generosity seems mainly to amplify windfall effects, without generating proportional gains in terms of intensity. The French experience provides a compelling illustration of this. Considered one of the most generous R&D support schemes among OECD countries³⁸, the French credit still struggles to convert this massive tax expenditure into tangible gains, with the country ranking at the bottom of the OECD, one place above Quebec in the SR&ED intensity ranking (see *Figure 1*). The comparison is all the more troubling when we consider that, in many respects, the CRIC follows a similar logic: a "wall-to-wall" approach based on a largely refundable, highly generous, and loosely segmented credit that covers almost all expenses incurred in an SR&ED process.

An analysis of current practices at the OECD also tends to confirm that the Quebec government will achieve better results by focusing on targeted, better-defined interventions and making greater use of direct assistance. The examples of Germany and Denmark – which are far ahead of Quebec with private spending per job in SR&ED 1.7 times higher – provide clear guidelines in this regard. In Germany, public support for private SR&ED takes almost exclusively the form of direct aid, as tax incentives have long been absent from the German innovation support strategy³⁹. This institutional choice, consistent with the German tradition of targeted and evaluated industrial policies⁴⁰, has not prevented the country from achieving a high level of SR&ED intensity. The situation is much the same in Denmark. A large proportion of the country's strategy is based on direct support, and tax incentives are designed to reduce companies' liquidity constraints. The credit is repayable only by loss-making companies, and the amount allocated is capped to avoid massively subsidizing the SR&ED efforts of large companies.

Ultimately, a review of current practices in OECD member countries shows that there is no perfect model for stimulating private SR&ED. However, one thing is clear: if it truly wishes to revive private investment in SR&ED, the Quebec government will have to break with the dogma that has structured its industrial policy for nearly a quarter of a century and agree to rethink the logic of its intervention. This overhaul must be accompanied by rigorous and systematic monitoring of the effects of the measures put in place, otherwise the abuses observed under the current regime are likely to continue.

37 Information on the parameters of the main tax measures proposed in OECD19 countries comes from the OECD's [INNOTAX Portal – Tax incentives for R&D and Innovation](#).

38 See [R&D tax incentives continue to outpace other forms of government support for R&D in most countries](#), which provides an estimate of tax subsidy rates for R&D expenditure (i.e., I – B-index).

39 Germany introduced an SR&ED tax credit (Forschungszulage) in 2020. Source: OECD [INNOTAX Portal – Tax incentives for R&D and Innovation](#).

40 OECD (2022), *OECD Reviews of Innovation Policy: Germany 2022: Building Agility for Successful Transitions*, OECD Reviews of Innovation Policy, OECD Publishing, Paris. Pages 115 to 137

DATA SOURCES

FIGURE 1

Business enterprise expenditures on research and development (BERD)

Statistics Canada, CANSIM, Table: 27-10-0273-01 (formerly CANSIM 358-0001)

OECD, Main Science and Technology Indicators (MSTI database),
Business enterprise expenditures on research and development (BERD)

Employment

Statistics Canada, CANSIM, Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Special compilation by Statistics Canada

OECD, Structural Analysis Database – 2025 Edition, Total Employment

Purchasing power parities

OECD, Annual Purchasing power parities and Exchange Rates,
GDP Purchasing Power Parity

FIGURE 2

Proportion of BERD borne by public administrations

OECD, R&D tax incentives and direct public funding of BERD,
Percentage of business R&D expenditure

FIGURE 3

Business enterprise expenditures on research and development (BERD)

Statistics Canada, CANSIM, Table: 27-10-0273-01 (formerly CANSIM 358-0001)

Gross domestic product (GDP)

Statistics Canada, CANSIM, Table: 36-10-0255-01 (formerly CANSIM 380-0017)

Statistics Canada, CANSIM, Table: 36-10-0222-01 (formerly CANSIM 384-0038)

FIGURE 4

Business enterprise expenditures on research and development (BERD)

Statistics Canada, CANSIM, Table: 27-10-0273-01 (formerly CANSIM 358-0001)

OECD, Main Science and Technology Indicators (MSTI database),
Business enterprise expenditures on research and development (BERD)

Employment

Statistics Canada, CANSIM, Table: 36-10-0480-01 (formerly CANSIM 383-0033)

Special compilation by Statistics Canada

OECD, Structural Analysis Database – 2025 Edition, Total Employment

Purchasing power parities

OECD, Annual Purchasing power parities and Exchange Rates,
GDP Purchasing Power Parity

FIGURE 5

Number of SR&ED credit recipients in Quebec

ISQ, Number of firms that received tax assistance for industrial R&D from the government of Québec, 1997-2022, by number of employees in Quebec

FIGURE 6

Nominal cost of R&D credits in Quebec

Godbout, L., Latulippe, L., and M. Robert-Angers (2024). *Crédits d'impôt relatifs à la recherche scientifique et au développement expérimental: Constats et propositions*. Analysis of tax expenditures 2024. Chair in Taxation and Public Finance. University of Sherbrooke. Research Paper 2024/13. Table 8 – Evolution of tax expenditures, R&D credits (in current dollars), 1983–2024.

FIGURE 7

Business enterprise expenditures on research and development (BERD)

Statistics Canada, CANSIM, Table: 27-10-0273-01 (formerly CANSIM 358-0001)

Employment

Statistics Canada, CANSIM, Table: 36-10-0480-01 (formerly CANSIM 383-0033)

TABLE I

Government of Quebec (2025). *Budget 2025-2026: For a Strong Québec – Innovating to Prosper*. Finances Quebec, March 2025. This table is a reproduction of part of Table 2 – Overview of the nine tax measures to support innovation – 2023–2024 (page 16) and part of Table 4 – Summary of changes to tax assistance for innovation announced in Budget 2025-2026 (pages 31–32).

FIGURES 8-9-10

The econometric analysis is based on the Business Research Microdata (BRM), a database developed by Statistics Canada's Economic Analysis Division, whose objective "is to provide external researchers at Research Data Centres (RDC) a set of 'core' firm level variables that are able to satisfy the economic questions their projects seek to answer."

"The analyses contained in this text were carried out at the Quebec Inter-university Centre for Social Statistics (QICSS), a member of the Canadian Research Data Centre Network (CRDCN). The activities of QICSS are made possible by the financial support of the Social Sciences and Humanities Research Council (SSHRC), the Canadian Institutes of Health Research (CIHR), the Canada Foundation for Innovation (CFI), Statistics Canada, the Fonds de recherche du Québec and all the Quebec universities that contribute to their funding. The ideas expressed in this text are those of the authors and not necessarily those of the CRDCN, QICSS or their partners."

FIGURE II

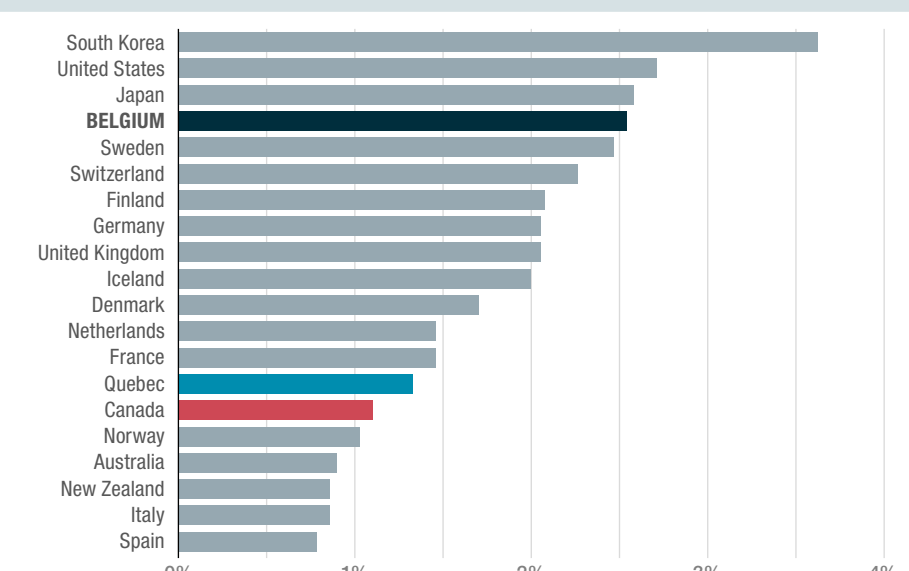
Concentration of SR&ED Tax Incentives in Quebec

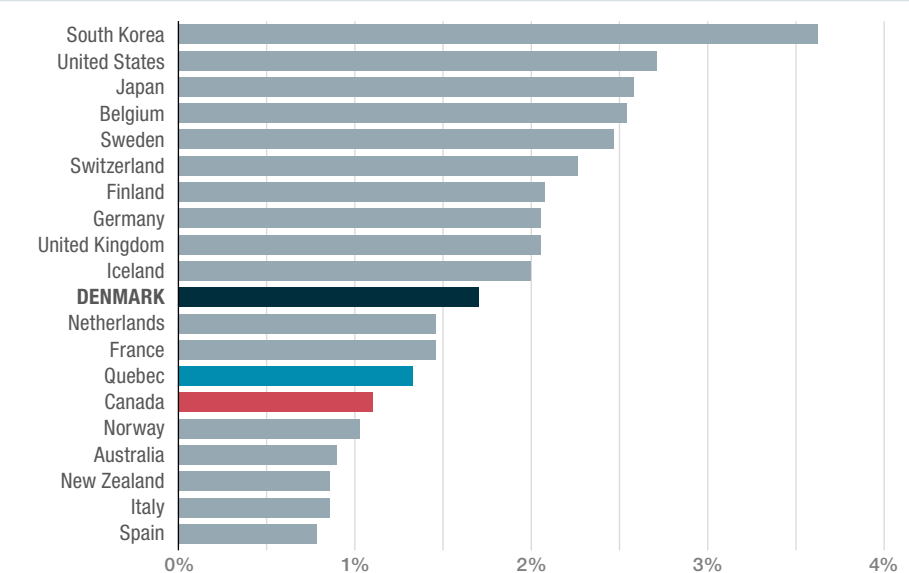
ISQ, Concentration of tax support for industrial R&D from the government of Québec, 1997-2022

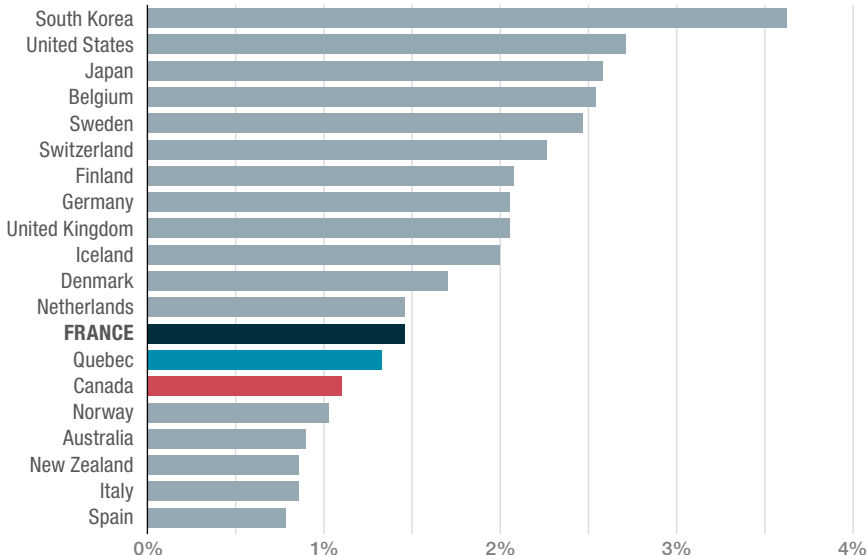
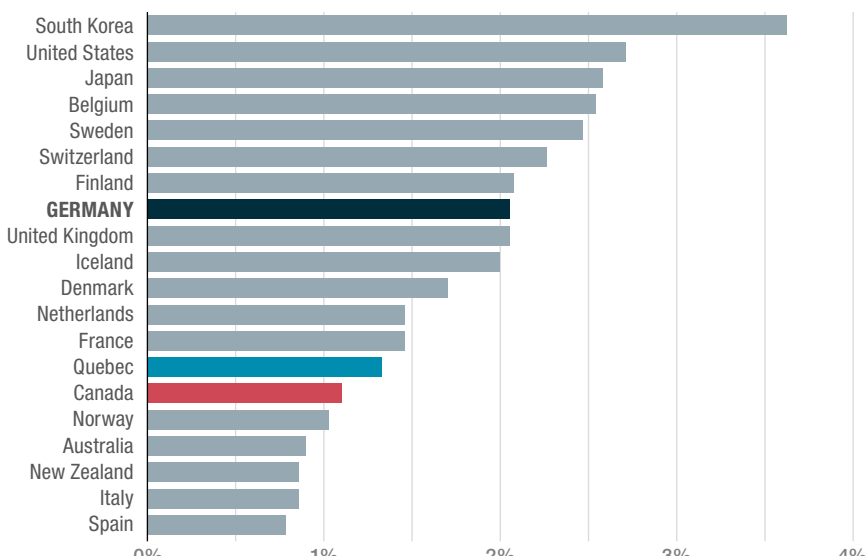
APPENDIX

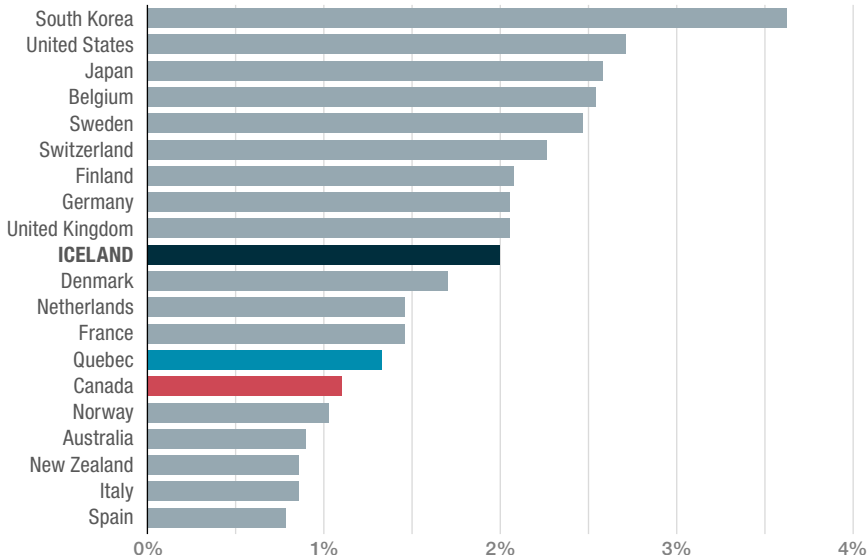
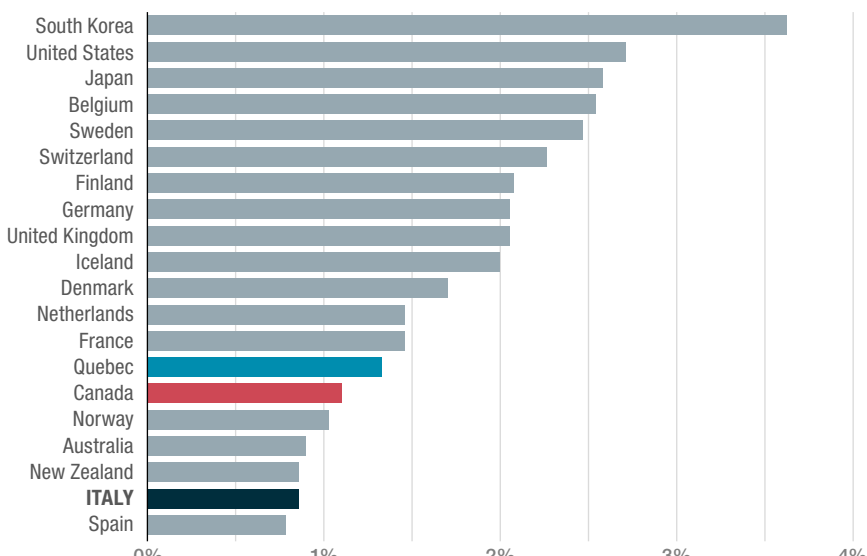
The list of the main SR&ED tax incentive measures proposed in OECD19 countries comes from the OECD's [INNOTAX Portal – Tax incentives for R&D and Innovation](#). This brief summary does not claim to provide an exhaustive analysis of the characteristics of the measures identified, but rather serves to reposition Quebec's approach within a broader perspective and to fuel reflection on the best practices in place to stimulate SR&ED.

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