SR&ED Program Updates
Nov 2024 to Nov 2025

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Items for Discussion

Significant program updates include:

1. Fall Economic Statement (Dec 2024)
2. Federal Budget (Nov 2025)
3. CRA SR&ED Review Guide (July 2025)
4. Other: Tax Earned by Audit (TEBA) and Gross Negligence Penalties (GNP)

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2024 Fall Economic Statement

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Fall Economic Statement

- The Fall Economic Statement was released December 16, 2024, and proposed significant and exciting changes for the SR&ED program.
- The initial optimism surrounding the announcement was short-lived, as the Minister of Finance resigned and an election was called.
- It was unclear if these proposals would be revived.

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2025 Federal Budget – SR&ED Reforms

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2025 Federal Budget – SR&ED Reforms



2025 Federal Budget – SR&ED Reforms

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1. Enhanced Expenditure Limit Raised to $6 Million

What changed: The annual limit for the 35% refundable SR&ED credit was doubled from $3M to $6M:

> *"Budget 2025 proposes to further increase the expenditure limit on which the SR&ED program's enhanced 35-per-cent tax credit can be earned, from the previously announced $4.5 million to $6 million.*
> *This measure would apply for taxation years that begin on or after December 16, 2024 (i.e., the date of the 2024 Fall Economic Statement)."*[1]

Impact: Small and medium-sized businesses can now claim significantly more refundable credits. For example, a CCPC spending $6M on eligible R&D can now receive up to **$2.1M** in refundable credits (vs. $1.05M previously).

2025 Federal Budget – SR&ED Reforms

2. Expanded Phase-Out Range: $15M–$75M

What changed: The phase-out range for the enhanced credit now applies to companies with taxable capital between $15M and $75M (up from $10M–$50M):

> *"the government is proceeding with the following previously proposed enhancements to the SR&ED program:*
>
> - *Increasing the prior-year taxable capital phase-out thresholds for the SR&ED program's enhanced 35-per-cent tax credit."*[1]
>
> *"[…] increase the lower and upper prior-year taxable capital phase-out boundaries to $15 million and $75 million, respectively"*[2]

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2025 Federal Budget – SR&ED Reforms

3. Eligibility Extended to (Some) Public Corporations

What changed: Certain Canadian public corporations (ECPCs) can now access the 35% refundable credit, previously reserved for CCPCs:

> *"the government is proceeding with the following previously proposed enhancements to the SR&ED program: […]*
>
> - *Extending the enhanced credit to eligible Canadian public corporations."*[1]

From the 2024 Fall Economic Statement:

> *"An eligible Canadian public corporation would be a corporation that, throughout the taxation year:*
>
> – *is resident in Canada;*
>
> – *has a class of shares listed on a designated stock exchange (a list is available on the Department of Finance website) or, if not, has elected, or been designated by the Minister of National Revenue, to be a public corporation; and,*
>
> – *is not controlled directly or indirectly in any manner whatever by one or more non-resident persons.*
>
> *Canadian-resident corporations all or substantially all of the shares of the capital stock of which are owned by one or more eligible Canadian public corporations would also be eligible*."[2]

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2025 Federal Budget – SR&ED Reforms

4. Capital Expenditures Reinstated

What changed: Capital expenditures (e.g., R&D equipment) are once again eligible for SR&ED claims:

> *"the government is proceeding with the following previously proposed enhancements to the SR&ED program: […]*
>
> - *Restoring the eligibility of SR&ED capital expenditures."*[1]

From the 2014 SR&ED Capital Expenditures Policy:

> *"only those expenditures that result in the acquisition of property that would be the claimant's depreciable property, other than a building or a leasehold interest in a building (see section 7.2). Expenditures for non-depreciable property such as the acquisition of land, property that is described in a claimant's inventory, or eligible capital property (such as goodwill) cannot be included in the pool of deductible SR&ED expenditures as an SR&ED capital expenditure (see section 7.1)."*[2]

Note: There is no explicit mention of lease expenditures being reinstated. It was a separate policy previously, so it may not be included.[3]

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2025 Federal Budget – SR&ED Reforms

5. Administrative Modernization

The CRA will introduce a **Pre-claim approval** for upfront eligibility confirmation (i.e. ***"before businesses undertake any work or incur costs**.")*

- Currently the following CRA SR&ED support services exist:
  - **Pre-Claim Consultation (PCC)** "*can tell you if there is scientific research and experimental development (SR&ED) work in any of your projects before you submit an SR&ED claim*."[1]
  - **Self-Assessment and Learning Tool (SALT)** is an interactive tool that "*helps you understand how to prepare to apply for Scientific Research and Experimental Development (SR&ED) tax incentives.*"[2]
  - **SR&ED Client Portal** "a secure, self-service space within My Business Account, designed to help you prepare your claim."[3]

The CRA will introduce an **AI-assisted triage** to fast-track low-risk claims

- This was hinted at in the update last year in the interview with CPA Canada.
- Note: not low value claims, only "low risk" claims. The criteria for "low risk" is unknown.

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2025 Federal Budget – SR&ED Reforms

5. Administrative Modernization - Continued

The CRA will implement a **90-day processing target** for pre-approved claims.

Budget Text:

- *"Implement an elective pre-claim approval process to provide businesses with an up-front technical approval of their eligible SR&ED projects, **before businesses undertake any work or incur costs**. For claims submitted through this elective process that require an expenditure review, processing time will be cut in half to **90 days from 180 days**.*
- *Increase the use of artificial intelligence in the program's administration, which will enable the CRA to avoid subjecting low risk claims to unnecessary audit interventions, allowing them to be processed faster.*
- *Streamline the review process by eliminating unnecessary steps and reducing burdensome information requirements that can delay the final determination of claims."*[1]

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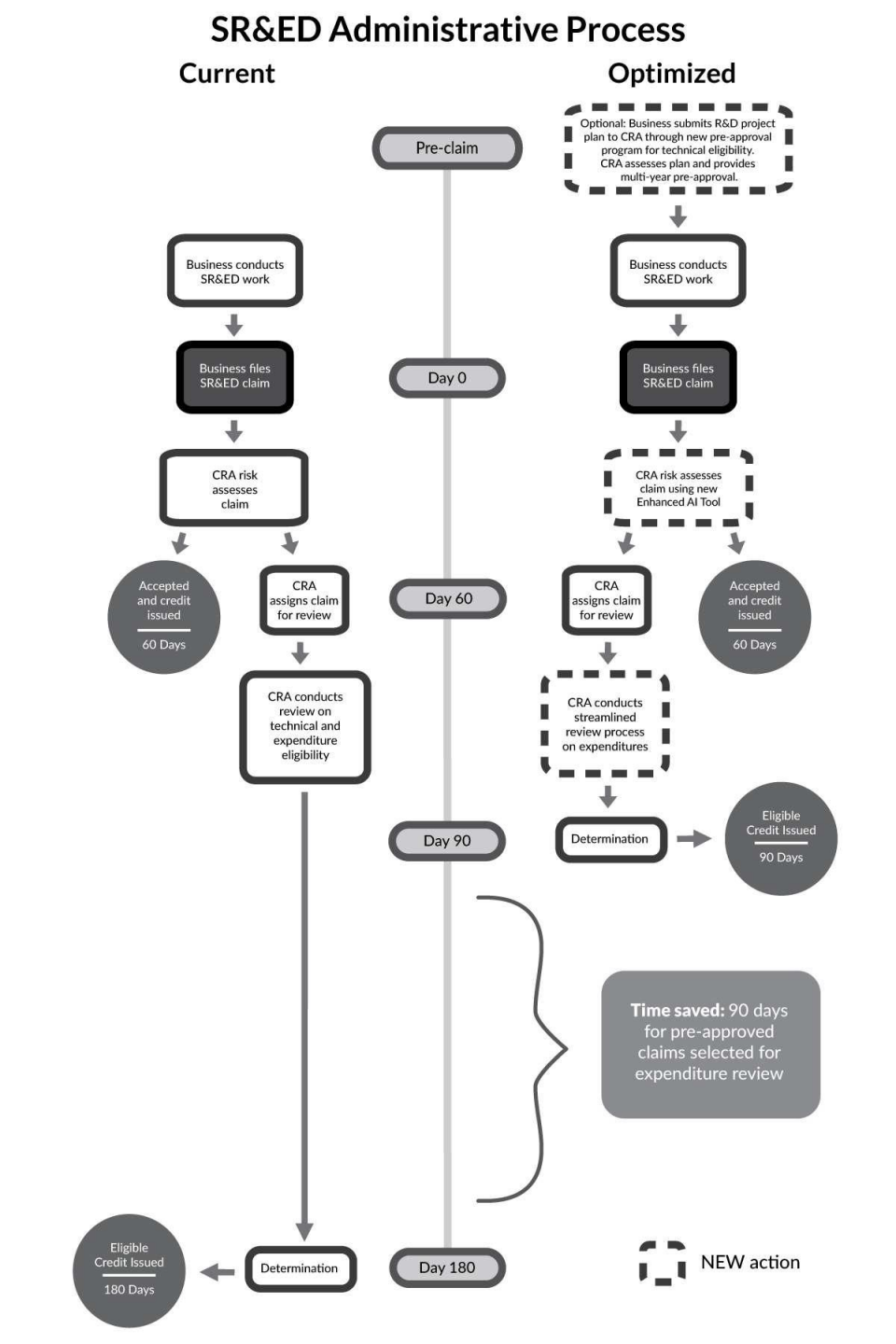
5. Administrative Modernization - Continued

(Image) Proposed SR&ED Administrative Process, Budget 2025 – Canada Strong[1]

These administrative reforms aim to "*to improve predictability and streamline administration of the SR&ED program*"[2]

However, while AI is a powerful tool that can enhance efficiency and consistency in risk assessment, it may also introduce unforeseen complications and consequences.

All parties should ensure that nuanced, context-specific factors are not overlooked in the pursuit of automation.



CRA SR&ED Review Guide - July 2025 Update

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CRA SR&ED Review Guide

1. Expanded Review Guide Scope

The original "SR&ED Technical Review: A Guide for Claimants" has been replaced with the new "**The SR&ED Review Process: A Guide for Claimants**"

The primary change involves the review guide's broadened scope, which now includes comprehensive detail on **technical** work as well as **expenditure** considerations:

> *"In some cases, a review will focus only on the expenditures. This guide provides an overview of the SR&ED claim review process when reviewing **both** the work and the expenditures."*[1]

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CRA SR&ED Review Guide

2. Stricter Documentation Standards

The CRA makes explicit in the new SR&ED Review Guide that they expect to see contemporaneous documentation for both the technical and financial portions of a review:

> *"**Supporting your SR&ED work.** The information available to support your SR&ED work is called supporting evidence. Documents that were generated when the work was being carried out are the most common, but supporting evidence can also include things like photographs, videos, scrap, or other artifacts that relate to the work. The best supporting evidence is documentation that is dated and specific to the work performed. The evidence you keep must support the information you provided in Part 2 of Form T661. The reviewers may ask for all or some of this documentation during the review. […]*
>
> ***Supporting your SR&ED expenditures.** You must also keep complete and organized records that support the expenditures you claim. The CRA's webpage provides information on what are records, who has to keep them and why it is important as well as your responsibilities and the requirements associated with records the law requires you to keep. Records and documents that the reviewers might ask for during a review include: financial statements, ledgers, journals, and vouchers, and electronic records. The reviewers may also ask for source documents such as receipts, contracts, and general correspondence. Also, keep all related documents and information that support the specific expenditures in your SR&ED claim."*[1]

Key clarification: "oral statements are not a substitute for keeping adequate documentation or other evidence."[2]

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CRA SR&ED Review Guide

3. Review Process Transparency

What changed: The Review Process has been reworked to present the full review process in 3 clear steps: beginning, middle, and end.

The **original** review steps (discussing only technical reviews) included:

- Step 1 – Preparing and planning
- Step 2 – Conducting a site visit
- Step 3 – Communicating, reporting, and finalizing results

The **new** review steps include:

- Step 1: The start of the review
- Step 2: The review meeting and requests for additional information
- Step 3: The end of the review

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There is now a distinct emphasis on clarity and transparency:

> *"Throughout all steps of the review, the reviewers will communicate with you in a transparent manner. This means they will be open and frank when discussing the issue(s)under review. For example, when requesting information, the reviewers* ***will explain to you why the information is needed.*** *Likewise, if you have any questions or require clarification on what is being asked for, you can ask the reviewers. This transparency will help you understand where clarification is needed."*[1]

CRA SR&ED Review Guide

Step 1: The start of the review:

*"When your claim has been selected for review, one of the reviewers assigned to your claim will **contact you by phone**. Topics covered in this initial call usually include the list below, but could be modified depending on the unique situation of your claim:*

- ***"The issue(s) identified in your claim and the projects that will be reviewed. The reviewers will try to be as specific as possible when identifying issues, however, the ability to do so can depend on the content of the information submitted in the claim […]***
- *You will receive an **initial letter** that will summarize what was discussed during the call, as well as:*
  - ***A list of any information being requested to address the issues,** and whether the information is needed before or at the meeting. If any information is required before the meeting, a deadline will be provided following the Standard Timelines for Information Requests, which is generally 30 days*
  - *A meeting agenda **identifying the issues** and related projects to be discussed as well as an estimated amount of time for each area of discussion. The agenda may be sent at a later date if its contents have not been finalized at the time the letter is sent. Some of the topics covered during the review meeting are listed in Section 2.1"*[1]

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CRA SR&ED Review Guide

Step 2: The review meeting and requests for additional information

"*The second step is the review meeting."*[1]

This section of the update review guide discusses the items that may be discussed during the review meeting including reviewing the supporting documentation, interviews with those directly involved in the work, how a tour of the premises in which the SR&ED work was carried out may occur (in-person or virtually), and the sharing of the preliminary finding if possible:

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"At the end of the meeting, the reviewers will verbally provide a summary of:

- *Their understanding of the work*
- *The clarification that they obtained regarding the issues*
- *The areas where they still have concerns and require further clarification (if applicable)*
- *The information that is still missing and needs to be obtained (if applicable), along with a deadline for providing that information*
- *The preliminary review findings**
- *Recommendations for future claims*
- *The next steps in the review process"*[2]

CRA SR&ED Review Guide

Step 3: The end of the review

"*The third step covers what happens after the review meeting."*[1]

After the review meeting has been completed and any additional information requested by the CRA has been given, "*the reviewers will communicate their final review findings to you by phone or videoconference, before sending them to you in writing"*[2] in the form of an SR&ED Project Eligibility Report.

The claimant has 30 days to respond the CRAs decision, and if no response is given, the Notice of Reassessment will be issued.

The CRA still includes the dispute resolution process in Step 3 of the new review guide, however, the wording has been changed for clarity including:

1) Streamlining into two sections:
    1) The dispute resolution process (three-step escalation), and
    2) Recommendations to help resolve concerns (practical tips)
2) Removing the lengthy discussion on communication principles.

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Tax Earned by Audit (TEBA) and Gross Negligence Penalties (GNP)

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Tax Earned by Audit (TEBA)

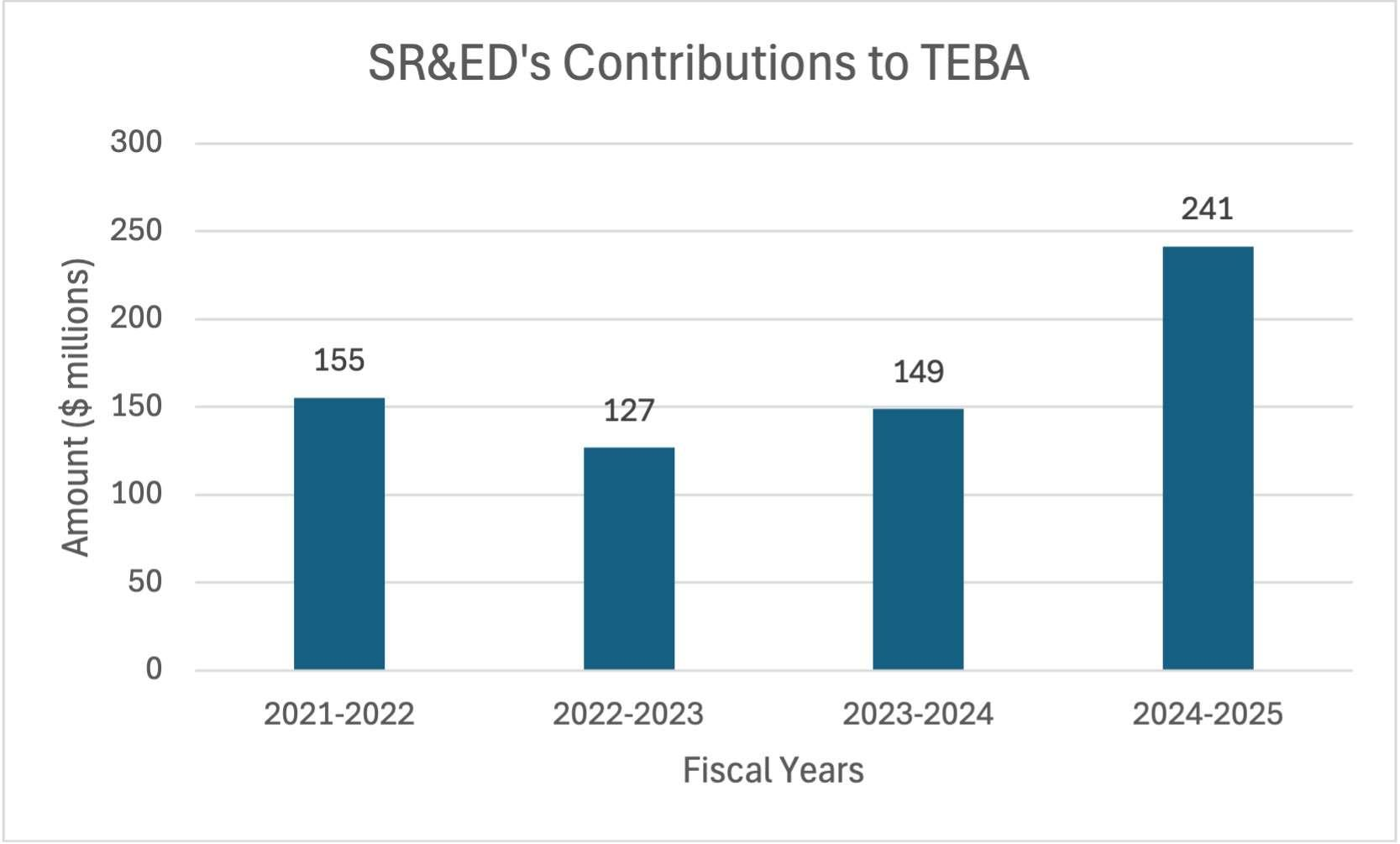

Figure 1: Scientific Research and Experimental Development (SR&ED) Contribution to Tax Earned by Audit (TEBA), Fiscal Years 2021-2022 to 2024-2025. Between 2023-24 and 2024-25, SR&ED-related TEBA increased by nearly $100 million.[1]

GNP

In addition, it appears CRA is increasingly applying Gross Negligence Penalties (GNPs) - a punitive tax measure -within SR&ED audits.[1]

Under subsection 163(2) of the *Income Tax Act*, the CRA can apply a GNP when a taxpayer "*knowingly, or under circumstances amounting to gross negligence*," makes a false statement or omission.[2]

A GNP is a large financial penalty - typically 50% of the understated tax - that the CRA applies when it believes a taxpayer acted recklessly or intentionally misled the Agency.[3] Moreover, CRA documentation confirms the Agency includes GNPs in TEBA.[4]

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GNP

Year	Number of SR&ED GNPs Applied	Total GNP	Number of Fully Denied Claims	Denied Expenditures ($ millions)*
2018	3	$0	1176	$68.2
2019	1	$100,000	976	$62.1
2020	0	$0	367	$29.3
2021	0	$0	576	$53.5
2022	34	$2,800,000	640	$51.7
2023	56	$4,600,000	804	$62.0
2024	80	$5,200,000	779	$76.0

Table 1: Scientific Research and Experimental Development (SR&ED) Gross Negligence Penalties (GNPs) and Fully Denied SR&ED Claims, 2018-2024.[1]

**values rounded to the nearest hundred thousand.*

Why including SR&ED and GNPs in TEBA is a Problem

Conflict of Purpose

- TEBA measures the tax revenue generated through audits. However, the SR&ED program is intended to encourage businesses of all sizes, and in all sectors, to conduct R&D in Canada, by "*reducing the after-tax cost of eligible R&D work*."[1]
- Therefore, including SR&ED audit outcomes in TEBA undermines this policy intent by treating an incentive program as an enforcement mechanism.

Program Integrity

- Applying GNPs more aggressively and potentially treating them as tax revenue may also undermine the policy intent. It will also discourage legitimate claimants from participating in the program.

Transparency Gap

- While the CRA confirmed through ATIP disclosures that SR&ED contributes to TEBA, it provided no records linking TEBA to compensation or performance pay.[2]
- However, the OAG has identified TEBA as one of the CRA's main internal performance indicators, and in its 2021 Government Response to the House of Commons Public Accounts Committee, the CRA reported that it had "*refined its TEBA expectation-setting methodologies and completed a trend analysis of historical TEBA targets, results, and budgeted salaries.*"[3]
- Without greater transparency regarding how TEBA interacts with performance evaluation and compensation systems in relation to SR&ED and compensation systems in relation to SR&ED, confidence in the impartiality and fairness of SR&ED administration, confidence in the impartiality and fairness of SR&ED administration may erode.

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Further Reading

Significant Enhancements to SR&ED Program Announced (2024)

SR&ED in the Fall Economic Statement (2024) – December 16, 2024

2025 Federal Budget Unveils Historic SR&ED Reform: A New Era for Canadian Innovation

SR&ED In the Federal Budget (Summary) – 1995 to Present

Capital Expenditures in SR&ED: Does it include Cloud Computing Costs?

Gross Negligence Penalties: A Step Backward for SR&ED Claimants?

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