

# Submission on Draft Legislative Proposals: SR&ED Investment Tax Credit

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## Background & Context

[Canada's Semiconductor Council \(CSC\)](#) is the national industry association representing nearly 50 companies across Canada's high-value semiconductor and electronic component supply chain. Our membership spans the ecosystem, from Canadian-owned small and medium enterprises and scale-ups, to large multinational corporations with significant Canadian R&D and manufacturing operations.

CSC provides a unified voice for Canada's semiconductor sector in policy, advocacy, and international engagement. We work with government, academia, and industry partners to strengthen Canada's position in global value chains, expand domestic innovation capacity, and ensure Canada remains a competitive and attractive location for advanced technology investment.

The feedback in this submission reflects the direct input of CSC members. Following the release of the draft legislative proposals on SR&ED, CSC solicited member perspectives through a dedicated consultation process. This submission reflects both broad support for the proposals as drafted and specific refinements that members identified as critical to ensuring the program fully supports Canada's semiconductor ecosystem.

## Executive Summary

Canada's Semiconductor Council (CSC) welcomes the draft legislative proposals to modernize the Scientific Research & Experimental Development (SR&ED) program. Our members broadly support the Government of Canada's proposed reforms, which will:

- Reinstatement of capital expenditures as eligible, addressing critical needs for equipment-intensive R&D.
- Extension of the enhanced 35% ITC to public companies, reducing the penalty for scaling.
- Raising limits and thresholds, enabling companies to grow without prematurely losing benefits.
- Advancing program modernization, including clearer definitions and streamlined processes.

CSC strongly supports these changes. In addition, we recommend several refinements to ensure the program fully meets the needs of Canada's semiconductor ecosystem and maximizes economic impact.

# Additional Recommendations Based on Semiconductor Industry Input

## 1. Support for Canadian-Owned Firms

Introduce enhanced SR&ED benefits for majority or wholly Canadian-owned companies, or broaden eligible costs (e.g., design tools). This would help level the playing field with foreign firms that benefit from SR&ED while having greater purchasing power for talent.

## 2. Recognition of Software-Driven R&D

Provide clearer eligibility for complex, program-based software development and IP creation, which often takes place outside traditional laboratory settings but is central to modern R&D.

## 3. Eligible Semiconductor Costs

Explicitly recognize electronic design automation tools, chip fabrication mask tool costs, IP licensing, and cloud compute as eligible R&D expenditures. These account for 50–70% of non-labour spend for semiconductor startups, and 15–25% for larger firms.

## 4. Simplification of Application Process

Reduce administrative burden by simplifying guidance and aligning SR&ED with other federal/provincial supports. The current complexity forces many early-stage firms to rely on consultants, diverting resources away from R&D.

## 5. Federal–Provincial Credit Interaction

Develop mechanisms to:

- Enhance provincial credits, or
- Permit federal credits to offset provincial liabilities.  
This would address current imbalances where federal ITCs grow while provincial credits shrink, complicating financial planning.

## 6. Refundability of the 15% ITC

Extend refundability to the 15% ITC for non-CCPCs and public/multinational firms. Options include:

- Full refundability, or
- Targeted refundability (e.g., limited to wages, incremental R&D hiring, or new roles).

### **Rationale:**

- Many companies, particularly large multinationals with significant Canadian operations, consistently generate SR&ED credits in excess of their Canadian tax liability. Because these credits are non-refundable, they cannot be applied to operational costs such as payroll or rent, and instead accumulate unused for years, risking expiration after 20 years.
- This structure diminishes the program's utility and reduces Canada's competitiveness compared with jurisdictions offering refundable or more flexible incentives.
- A refundable model—even if only partially refundable—would:
  - Provide immediate financial benefit and improved cash flow.
  - Better align with the operational realities of cross-border service structures.
  - Support long-term innovation and talent development in Canada.

## **Conclusion**

The proposed reforms are an important step forward. By also addressing CSC's recommendations—including enhanced support for Canadian-owned firms, recognition of software-driven and semiconductor-specific costs, process simplification, improved federal–provincial interaction, and especially extending refundability of the ITC to large public companies and non-CCPCs—the SR&ED program can become a more powerful driver of innovation, competitiveness, and economic growth.

CSC appreciates the opportunity to comment and looks forward to ongoing collaboration with Finance Canada and ISED to ensure the SR&ED program fully supports Canada's semiconductor ecosystem.