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SR&ED Tax Credit for Montreal Startups: 2026 Guide

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What SR&ED is and who it is for

The Scientific Research and Experimental Development (SR&ED) program is the federal government's main tax incentive for research and development done in Canada. Corporations, individuals, trusts and partnerships that carry out SR&ED work in Canada can deduct their SR&ED expenditures and earn an investment tax credit (ITC) that reduces federal income tax ([CRA, What are SR&ED tax incentives](#)).

For a Montreal startup, the refund matters most: a Canadian-controlled private corporation (CCPC) can receive much of its credit in cash even with no taxable income yet.

SR&ED is federal and administered by the Canada Revenue Agency (CRA). Quebec runs its own R&D credit, the CRIC, through Revenu Québec. A Quebec company can usually claim both, but the two interact, as explained further down.

The eligibility test: advancement and systematic investigation

The CRA asks three things of the work itself ([CRA, What work is eligible](#)):

1. It is conducted in Canada.
2. It is carried out to advance scientific knowledge or to achieve a technological advancement.
3. It is a systematic investigation or search in a field of science or technology, carried out by experiment or analysis.

A systematic investigation means defining a problem, proposing a hypothesis to solve it, testing that hypothesis through experiment or analysis, and drawing logical conclusions from the results. You do not have to reach your goal: learning that an approach does not work can still be new knowledge ([CRA, What work is eligible](#)).

The heart of the test is uncertainty. In the CRA's eligibility guidelines, new knowledge is needed when it is unknown whether a result can be achieved because existing knowledge is insufficient. "Existing knowledge" includes what your own team already knows plus what is reasonably available to the public. Work that sidesteps the uncertainty by applying known techniques is not eligible, and the CRA states plainly that "it is not enough that work be carried out systematically in order for it to be eligible" ([CRA, Guidelines on the eligibility of work](#)).

A quick self-check for a technical lead:

- Could a competent developer in your field have solved this by reading documentation, papers or forums? If yes, it is probably not SR&ED.
- Can you write down, before or during the work, what you did not know and why standard practice would not solve it?
- Did you try alternatives, measure the results and change course based on them?
- Are those attempts recorded somewhere dated (tickets, commits, experiment logs)?

What does not count

The CRA lists work that cannot be claimed, including market research or sales promotion, quality control or routine testing, social sciences and humanities research, commercial production, style changes and routine data collection. Training, hiring experts to apply existing knowledge and buying proprietary knowledge are also excluded ([CRA, What work is eligible](#)).

Computer programming appears in the CRA's list of support work. Support work counts only when it directly supports basic research, applied research or experimental development and is proportionate to it; it "is not SR&ED on its own" ([CRA, Guidelines on the eligibility of work](#)).

For a software startup, this usually means:

Usually outside SR&ED	Possibly SR&ED, if a real technological uncertainty exists
Building standard CRUD features, dashboards, payment integrations	Designing a new algorithm when known methods fail a latency or accuracy constraint
Configuring cloud services by following vendor documentation	Resolving a scaling or concurrency problem no documented approach solved
UI redesigns, A/B tests of copy and layout	Experimental model architectures where published approaches do not reach the target
Bug fixing and routine debugging	Systematic tests of hypotheses about why a novel system behaves as it does
Customer interviews and market validation	The programming that directly supports one of the experiments above

Most products contain a small SR&ED core inside a larger amount of routine development. Identifying that core honestly is the claim.

Eligible expenditures

The CRA's allowable expenditures fall into current and capital categories ([CRA, Calculate allowable expenditures](#)):

- **Salary or wages** of employees directly engaged in SR&ED. Amounts must be paid by the end of the tax year or within 180 days after it.
- **Materials** consumed or transformed in the SR&ED.
- **Contracts** for SR&ED performed on your behalf in Canada. Arm's length contracts can count toward the ITC; non-arm's length contracts may be deductible but do not earn an ITC.
- **Lease costs of equipment** incurred after December 15, 2024.
- **Overhead and other expenditures**, only under the traditional method.
- **Third-party payments** to qualifying institutions.
- **Capital expenditures** for depreciable property acquired after December 15, 2024.

You choose between two methods for overhead. Under the traditional method you identify and claim actual overhead. Under the proxy method you do not claim overhead separately; instead you calculate a prescribed proxy amount (PPA) that earns an ITC but is not deductible ([CRA, Calculate allowable expenditures](#)). The CRA's T661 guide sets the PPA at 55% of the salary base, and treats arm's length contract expenditures and third-party payments as 80% eligible for the ITC. For specified employees (broadly, significant shareholders and people related to them), eligible salary is capped at five times the year's maximum pensionable earnings, which is \$373,000 for 2026 ($5 \times \$74,600$) ([CRA, T4088 guide to Form T661, Rev. 26](#); [CRA, 2026 YMPE](#)). These rules are unchanged in the current guide (Rev. 26) and Form T661 (26), which adds a part for capital expenditures on property acquired after December 15, 2024.

Most small software teams use the proxy method because it avoids allocating rent and utilities line by line.

The credit rates: 15% basic and 35% enhanced

As of October 2026, the CRA states the rates this way ([CRA, Get an investment tax credit](#)):

- **15% basic rate** on qualified SR&ED expenditures, for corporations, individuals, trusts and partners.
- **35% enhanced rate** for most CCPCs, on qualified expenditures up to the expenditure limit. Expenditures above the limit earn the basic 15% rate.
- For tax years beginning after December 15, 2024, **eligible Canadian public corporations** (resident in Canada, listed on a designated stock exchange and not controlled by non-residents) may also earn the 35% rate.

Unused ITCs can be carried back up to 3 tax years or forward up to 20 tax years ([CRA, Get an investment tax credit](#)).

How much comes back as cash

Refundability is what turns the credit into cash for a pre-revenue company ([CRA, Get an investment tax credit](#)):

Situation (CCPC)	Rate	Refundable portion
Current expenditures up to the expenditure limit	35%	100%
Capital expenditures up to the expenditure limit	35%	40%
Expenditures above the limit, if the CCPC is a "qualifying corporation"	15%	40%
Corporations outside the CCPC and public-corporation categories	15%	Not refundable

A "qualifying corporation" is a CCPC whose taxable income for the previous year, together with that of associated corporations, did not exceed its qualifying income limit: \$500,000, reduced when prior-year taxable capital exceeds \$15 million ([Income Tax Act, s. 127.1\(2\)](#)). A seed-stage startup with no taxable income last year and spending well under the limit stays in the first row: every eligible dollar of current spending can come back at 35 cents.

The expenditure limit in 2026

The limit on the enhanced rate doubled. For most CCPCs it is \$3 million for tax years beginning before December 16, 2024 and **\$6 million for tax years beginning after December 15, 2024** ([CRA, Get an investment tax credit](#)).

The limit shrinks as the company grows. For tax years beginning after December 15, 2024, it starts to decrease when taxable capital employed in Canada reaches \$15 million and is nil at \$75 million (previously \$10 million and \$50 million). Associated CCPCs share one limit and allocate it on Schedule 49, and a short tax year can also reduce it ([CRA, Get an investment tax credit](#)).

These changes, along with restored eligibility of capital expenditures and the extension to eligible Canadian public corporations, are law: the limit in [s. 127\(10.2\)](#) now reads $\$6 \text{ million} \times [(\$60 \text{ million} - A) \div \$60 \text{ million}]$, applying to taxation years beginning on or after December 16, 2024. They were part of Bill C-15, the Budget 2025 Implementation Act, No. 1, which received royal assent on March 26, 2026 as Statutes of Canada 2026, chapter 3 ([LEGISinfo, Bill C-15](#)). The bill's summary lists "increasing the annual expenditure limit and taxable capital phase-out thresholds", extending the enhanced credit to eligible Canadian public corporations and "restoring the eligibility of SR&ED capital expenditures" ([Parliament of Canada, Bill C-15 as assented](#)). In practice, a startup with a calendar tax year has had the \$6 million limit since its 2025 tax year.

Worked example for a five-person Montreal software team

Illustrative only. Numbers are invented to show the mechanics; the real figures go on Form T661, Schedule 31 and Quebec form RD-1029.8.CR.

A Griffintown CCPC has five people and a calendar tax year (January 1 to December 31, 2026). Taxable capital is well under \$15 million, so the full \$6 million limit applies. It uses the proxy method.

- Four developers earn \$100,000 each. Time records show each spent 60% of the year on an eligible project (a new approach to real-time anomaly detection where published methods missed the latency target). SR&ED salaries: $4 \times \$100,000 \times 60\% = \mathbf{\$240,000}$.

- The founder-CEO does sales and fundraising. No salary is claimed.
- An arm's length Montreal contractor ran benchmark experiments for \$30,000. At 80%: **\$24,000**.
- Prescribed proxy amount at 55% of the \$240,000 salary base: **\$132,000**.

Qualified expenditures before assistance: $\$240,000 + \$24,000 + \$132,000 = \mathbf{\$396,000}$.

Now the Quebec effect. Provincial R&D tax credits that you have received, are entitled to receive or can reasonably expect to receive are government assistance, and they reduce qualified SR&ED expenditures whether you use the proxy or the traditional method ([CRA, T4088](#)). So compute the CRIC first. Its base is its own, with no proxy amount: Quebec R&D salaries count in full and an arm's-length subcontract counts for half; the credit is 30% on up to \$1 million of eligible expenses above an exclusion threshold, which is the greater of \$50,000 and, for each R&D employee, the lesser of their R&D salary and the basic personal amount (\$18,952 in 2026) times their R&D share of time ([Finances Québec, Budget 2025-2026, Renseignements additionnels](#), pp. A.4-A.18; [Bulletin 2025-6](#)).

- CRIC base: $\$240,000 + 50\% \times \$30,000 = \mathbf{\$255,000}$.
- Exclusion threshold: $4 \times (\$18,952 \times 60\%) = \$45,485$, below the \$50,000 floor, so **\$50,000**.
- CRIC: $(\$255,000 - \$50,000) \times 30\% = \mathbf{\$61,500}$, refundable.

Step	Amount
Federal qualified expenditures before assistance	\$396,000
Less expected Quebec CRIC	(\$61,500)
Federal qualified expenditures	\$334,500
Federal ITC at 35%	\$117,075
Refundable portion (qualifying CCPC, current expenditures under the limit)	100%, so \$117,075

Together the two credits return \$178,575 on \$270,000 of cash R&D spending (salaries plus the contract).

The T2 for 2026 is due June 30, 2027, because corporations file within six months of year end ([CRA, When to file your T2](#)). The SR&ED reporting deadline is 12 months later: June 30, 2028.

Filing: T661, T2SCH31 and the deadline

A corporation's SR&ED reporting deadline is 12 months after its T2 return is due. A complete claim includes Form T661 (current version), Form T2SCH31 to claim the ITC, and other forms as needed. You can file with the original return or an amended one, electronically through CRA-certified software ([CRA, Submit your claim](#)).

Because the T2 is due six months after year end, corporations end up with 18 months from the end of the tax year. This deadline is strict: if you do not report an expenditure on Form T661 by then, you are not entitled to SR&ED incentives for it ([CRA, T4088 guide to Form T661](#)).

A practical sequence:

1. At the start of each project, write down the technological uncertainty and the hypotheses you plan to test.
2. Track time per project (a ticket label or timesheet column is enough) and keep dated experiment records.
3. At year end, list projects, separate SR&ED from routine work and reconcile salaries to payroll.
4. Prepare T661, Schedule 31 and, if associated, Schedule 49, plus the Quebec RD-1029.8.CR.
5. File with the T2 if possible. Filing early gets the refund sooner; the 18-month window is a backstop, not a target.

Unsure whether a project qualifies? Pre-claim approval is optional: the CRA assesses your project before you start work or incur costs. You can apply for up to 3 projects, each approval valid for up to 3 years, and you still file a normal claim ([CRA, What are SR&ED tax incentives](#)).

Stacking with Quebec credits

Quebec replaced its R&D credits in 2025. The new **crédit d'impôt pour la R-D et la précommercialisation (CRIC)** applies to expenses incurred in a tax year beginning after March 25, 2025 ([Revenu Québec, CRIC](#)). Finances Québec describes it as a refundable credit of 20% on R&D or pre-commercialization expenses above an exclusion threshold, raised to 30% on up to \$1 million of those expenses regardless of the company's assets, and refundable for any eligible corporation, not only CCPCs ([Finances Québec, Bulletin 2025-6, October 10, 2025](#)). The old salary-based R&D credit has been abolished and applies only to tax years beginning before March 26, 2025 ([Revenu Québec, Crédit relatif aux salaires R-D](#)).

How the two claims connect:

- **Same projects, CRA first.** For the R&D component, Revenu Québec recommends filing the CRIC claim and the return at the same time as with the CRA, because the CRA determines the eligibility of scientific projects and examines them first. Revenu Québec also asks you to keep a copy of the federal T661 for the year ([Revenu Québec, CRIC](#)). A weak federal project description weakens both claims.
- **Same deadline logic.** The CRIC must be claimed by the last day of the 12-month period after the corporate return's due date, using form RD-1029.8.CR ([Revenu Québec, CRIC](#)).
- **Quebec reduces federal.** The expected CRIC is assistance that reduces your federal qualified expenditures, as in the worked example ([CRA, T4088 guide to Form T661](#)).
- **Pre-commercialization is Quebec only.** The CRIC also covers pre-commercialization activities, which have no federal SR&ED equivalent.

The March 18, 2026 Quebec budget made no change to the CRIC. For the pre-commercialization component, read our [Quebec CRIC tax credit guide](#). If your company develops software or IT services, Quebec's e-business credit may also apply to your payroll; see our [CDAE guide for 2026](#).

Common mistakes and review risk

- **Describing products instead of uncertainties.** "We built a mobile app" is not a claim. The CRA wants the knowledge gap, the hypotheses and what you learned.

- **Claiming whole teams.** Claiming 100% of every developer's salary is a red flag. Base percentages on time records.
- **Reconstructing evidence a year later.** The CRA recommends keeping evidence generated as the work progresses (CRA, [Guidelines on the eligibility of work](#)). Commits, tickets and experiment notes are your file. See our [record retention guide](#) for how long to keep them.
- **Forgetting association.** If a founder controls another corporation, the groups may be associated and must share one \$6 million limit on Schedule 49.
- **Ignoring government assistance.** Grants and the Quebec credit reduce federal qualified expenditures. Leaving them out overstates the refund and invites a reassessment.
- **Unpaid salaries.** Accrued founder salaries not paid within 180 days of year end do not qualify.
- **Missing the 18-month window.** There is no late filing route for unreported expenditures.

If you are not yet incorporated, our article on [when a Quebec freelancer should incorporate](#) explains the trade-offs, since the 35% refundable credit is reserved for corporations.

Frequently asked questions

Can a foreign-owned company claim SR&ED?

Yes, if it carries out the work in Canada, but it is generally not a CCPC. It earns a 15% non-refundable ITC, carried back 3 years or forward 20 (CRA, [Get an investment tax credit](#)). A financing round that gives non-residents or a public company control has the same effect for later years.

Does other government funding disqualify the work?

No. Receiving other government R&D funding does not by itself make the work ineligible (CRA, [What work is eligible](#)). The funding does, however, reduce the expenditures on which you calculate the credit (CRA, [T4088 guide to Form T661](#)).

For a T661 review session, 2727 Coworking's 8-seat conference room at 2727 Rue Saint-Patrick in Griffintown is bookable by the day at booking.2727coworking.com.

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