



## Canadian Tax & Legal Alert

### 2025 federal budget: Grants and incentives announcements and updates

November 17, 2025

#### Context

The Minister of Finance and National Revenue, the Honourable François-Philippe Champagne, presented Budget 2025 entitled “Canada Strong” in the House of Commons on November 4, 2025.

In a rapidly evolving global landscape and amid significant shifts in Canada–US trade relations, Budget 2025 lays out an ambitious roadmap to strengthen Canada’s economic foundations, while supporting sectors impacted by a new US tariff era. By introducing targeted incentive measures, the government aims to mobilize public and private-sector investment in strategic sectors, such as infrastructure, defence, and clean economy, that could lead to a better and more resilient economy. These commitments have the potential to be transformative and represent a pivotal opportunity to accelerate innovation and competitiveness, provided that forthcoming legislation and administration delivers efficiency, provides clarity and maintains momentum—critical factors to turn ambition into measurable impact.

A summary of the key incentive contained in Budget 2025 is provided below.

## Scientific Research and Experimental Development (SR&ED) program: Federal government confirmed its intent to introduce legislation to support the previously announced reforms, with an additional enhancement

Building on the government's intentions announced in the *2024 Fall Economic Statement* to overhaul Canada's SR&ED program,<sup>1</sup> Budget 2025 reaffirms its commitment to implement such proposed reforms. Notably, Budget 2025 proposes to **increase the annual expenditure limit** for the enhanced 35% SR&ED refundable investment tax credit (ITC) from \$3 to \$6 million, which is \$1.5 million more than the enhancement initially announced in 2024.<sup>2</sup> **This additional enhancement effectively would double the liquidity available to qualifying entities to the enhanced 35% refundable ITC**, providing real support for those making substantial investment in innovation in Canada.

We believe these reforms will modernize the program, better aligning it with the needs of Canadian companies operating in today's competitive and innovation-focused economy.

To better understand the important impact for the Canadian economy of each of the following proposed changes to Canada's SR&ED program, we invite you to read our [Canadian Tax & Legal Alert published on December 20, 2024](#), where we offer a detailed analysis and our perspectives on each of these:

- **The taxable capital phase-out structure**, which results in a reduction of the expenditure limit that is giving access to the 35% SR&ED enhanced ITC, would be increased from an initial phase out of \$10 million to \$15 million, and a complete phase out from \$50 million to \$75 million.
- **Select Canadian public corporations (CPCs) would be eligible for the enhanced refundable ITC of 35%** currently available to Canadian-controlled private corporations (CCPCs). Eligibility would be reduced on a straight-line basis where average gross revenue for the consolidated group over the preceding three years is between \$15 million and \$75 million.
- **CCPCs would have the ability to opt into the average gross revenue phase-out structure** described above for CPCs, as opposed to the taxable capital phase-out structure.
- **Eligibility of certain capital expenditures would be restored** for both the deduction against income and ITC components.

The introduction of a gross revenue phase-out, as opposed to a taxable capital phase-out, would be beneficial for many early-stage corporations that have and are raising equity financing.

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## Related links:

[Deloitte Tax Services](#)

[Global Investment and Innovation Incentives](#)

<sup>1</sup> [Reforming and Enhancing the Scientific Research and Experimental Development \(SR&ED\) Tax Incentive Program - Canada.ca.](#)

<sup>2</sup> Other announcements were made regarding the administration of the SR&ED program by the Canada Revenue Agency (CRA), notably to implement a new elective pre-claim approval process to provide businesses with an up-front technical approval of their eligible SR&ED projects, to streamline the SR&ED tax claim review process. These improvements will be implemented into SR&ED program operations as of April 1, 2026. The CRA also intends to engage consultations to improve the administration of the program and to review the SR&ED claim form (Form T661).

The **proposed changes would apply retroactively** for taxation years that begin on or after December 16, 2024. Claimants should determine whether these retroactive changes may have an impact on SR&ED claims that are currently in preparation for any taxation year that begins on or after December 16, 2024.

## Clean Economy ITCs: Expectations on retroactive legislation to implement announcements previously made

Recognizing that a “substantial increase in energy supply is required to support the growth of Canada’s population and economy,”<sup>3</sup> Budget 2025 confirms that the government will soon be introducing new legislation to implement the announcements previously made for all the Clean Economy ITCs, and “while legislation progresses, investors already have the certainty of retroactive eligibility.”<sup>4</sup>

We welcome the signal sent by Budget 2025. For investors and claimants of the Clean Economy ITCs, the confirmation that retroactive legislation will soon be implemented provides much-needed certainty. These announcements reaffirm Canada’s long-term commitment to a low-carbon economy and create **a clearer pathway for accelerating clean energy and technology projects**. While draft legislation has yet to be released, stakeholders must remain attentive to any further changes that may be included in any future proposed legislation.

### Clean Electricity ITC (CEITC)

Following the announcements made in Budget 2024 regarding the design and implementation of the CEITC,<sup>5</sup> many investors—including corporations owned by Indigenous communities, municipalities, pension plans and provincial and territorial Crown corporations—were expecting legislation and clarifications on its implementation. In Budget 2025, the government reaffirms its **intention to soon introduce legislation to implement the CEITC, making it available as of April 16, 2024**, for projects that did not begin construction before March 28, 2023,<sup>6</sup> with previously announced criteria and rules, as well as the following proposed updates:

- **Expanded eligibility:** The CEITC will support systems using waste biomass to generate heat or electricity, or both, that exports more electrical energy than heat energy on a net basis, as determined on an annual basis.<sup>7</sup>
- **Crown corporation eligibility:** The government confirms its proposition to remove conditions imposed on provincial and territorial governments for their Crown corporations to be eligible for the CEITC.
- **Canada Growth Fund (CGF):** For eligible property acquired and available for use on or after November 4, 2025, the CGF is proposed to be an eligible entity under the CEITC. An exception will also be introduced so that CGF financing does not reduce the cost of eligible property for CEITC purposes.
- **Canada Infrastructure Bank (CIB):** For eligible property acquired and available for use on or after December 16, 2024, the CIB will be an eligible entity under the CEITC, with a similar exception that CIB financing does not reduce the cost of eligible property for CEITC purposes.<sup>8</sup>

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<sup>3</sup> Budget 2025, page 109.

<sup>4</sup> Ibid., page 110.

<sup>5</sup> See [Canadian Tax & Legal Alert - 2024 federal budget: Grants and incentives announcements and updates](#).

<sup>6</sup> “clean electricity property,” as defined in the [legislative proposals](#) released on August 12, 2024, page 36.

<sup>7</sup> Budget 2025, page 110.

<sup>8</sup> [2024 Fall Economic Statement](#), page 256.

While the government reiterates its intention to implement the CEITC, it has also announced **potential consultations on introducing a domestic content requirement for the CEITC and the Clean Technology ITC (CTITC)**. This raises again uncertainties regarding access to these highly anticipated incentives.

### Carbon Capture, Utilization, and Storage ITC (CCUSITC)

An enhancement is proposed to the CCUSITC through the extension of the availability of full tax credit rates applicable to eligible expenditures until the end of 2035. Reduced rates previously applicable to expenditures incurred from the start of 2031 would now only be applicable to expenditures incurred from the start of 2036 until the end of 2040. The full and reduced tax credit rates are as follows:

Qualifying asset	Full rate (2022–2035)	Reduced rate
Eligible capture equipment used in a direct air capture project	60%	30%
All other eligible capture equipment	50%	25%
Eligible transportation, storage, and use equipment	37.5%	18.75%

The government is also proposing to postpone by five years the review of the CCUSITC rates that were announced in Budget 2022. Under this new timeline, the review will be undertaken before 2035 (rather than before 2030).

### Other clean economy ITC updates or measures previously announced

- **Clean Technology Manufacturing ITC:** Budget 2025 proposes to expand eligibility by including antimony, indium, gallium, germanium, and scandium as critical minerals eligible for property acquired and that becomes available for use on or after November 4, 2025. It also confirms the retroactive expansion of eligibility to January 1, 2024, for qualifying equipment used in eligible polymetallic mining projects as defined in the legislative proposals released on August 12, 2024.
- **Clean Hydrogen ITC (CHITC):** As previously announced,<sup>9</sup> eligibility expansion to include hydrogen produced from methane pyrolysis would be available as of December 16, 2024.
- **Clean Technology ITC:** Budget 2025 proposes to retroactively expand eligibility to include systems that produce electricity, heat, or both electricity and heat from waste biomass, and to amend the eligibility requirements for small nuclear energy property, both measures being available as of November 21, 2023, and March 28, 2023, respectively.

## Other tax incentives

### Accelerated investment incentive and immediate expensing for manufacturing and processing buildings, notably to incentivize productivity

Budget 2025 proposes **temporary immediate expensing for certain eligible manufacturing or processing buildings** provided the newly acquired building (including additions or alterations made to an existing building) meets the minimum 90% floor space requirement, is acquired on or after November 4, 2025, and is first used for manufacturing or processing before 2030. An enhanced first-year rate of capital cost allowance of 75% would be available for eligible property that is first used for manufacturing or processing in 2030–2031, while a rate of 55% for eligible property that is first used for manufacturing or processing in 2032–2033. Recapture rules may apply if the building's use later changes. Budget 2025 also confirms the government's intention to proceed with the previously announced measures in the 2024 Fall Economic Statement to reinstate the **Accelerated Investment Incentive**, which provides an enhanced first-year capital cost

<sup>9</sup> [2024 Fall Economic Statement](#), at page 259.

allowance for most capital assets, and immediate expensing for manufacturing or processing equipment, many clean energy equipment and vehicles, and other assets such as patents, data network infrastructure, and computers.

### Critical Mineral Exploration Tax Credit (CMETC)

Budget 2025 proposes to expand eligibility for the CMETC to include **12 additional critical minerals**: bismuth, cesium, chromium, fluorspar, germanium, indium, manganese, molybdenum, niobium, tantalum, tin, and tungsten.<sup>10</sup> This CMETC enhancement would apply to certain exploration expenditures targeted at these minerals and renounced as part of a flow-through share agreement entered into after November 4, 2025, and on or before March 31, 2027.

### Canadian Exploration Expense (CEE)

Starting November 4, 2025, Budget 2025 proposes to amend the legislation to clarify that **expenses for determining the quality of a mineral resource** do not include those related to determining its economic viability or engineering feasibility.<sup>11</sup>

## Discretionary incentives

Budget 2025's discretionary incentives **prioritize trade diversification, infrastructures, critical minerals, and defense strategies** to support the resilience of many strategic Canadian economic sectors. Key measures include budgetary allocations for previously announced incentives as well as new initiatives. Over \$1 billion would also be allocated to government agencies to support innovation on a broader scale. Through these incentives, **the government aims to catalyze significant private-sector investments that will accelerate innovation, strengthen strategic industries, and secure Canada's long-term economic resilience.**

### Trade diversification and industrial resilience

In addition to some previously announced tariff-relief financing,<sup>12</sup> Budget 2025 proposes the following:

- **Strategic Response Fund** under Innovation, Science and Economic Development Canada (ISED): \$5 billion over six years to help Canadian businesses recover from US tariffs and adapt to new trade realities, including \$1 billion for steel industry diversification, and to invest in large-scale transformative R&D and innovation projects.
- **Regional Tariff Response Initiative**: \$1 billion over three years to support small and medium-sized enterprises (SMEs) most impacted by US tariffs and global trade disruptions to invest and diversify their markets.
- **Forestry programs** under Natural Resources Canada (NRCan): \$500 million over three years to diversify forestry products and markets.
- **Biofuels Production Incentive**: \$372 million over two years allocated to NRCan to stabilize and strengthen domestic biodiesel and renewable diesel producers.

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<sup>10</sup> Eligible minerals to CMETC before this announcement can be found on the following website: [Tax incentives for mining and exploration - Natural Resources Canada](#).

<sup>11</sup> This clarification is made following a recent court decision (*Seabridge Gold Inc. v. British Columbia*, 2025 BCSC 558), which interpreted "quality" under the provincial equivalent of the CEE to potentially include economic viability, not solely physical characteristics of a mineral resource.

<sup>12</sup> [Large Enterprise Tariff Loan announced on March 7, 2025](#): a \$10 billion financing facility for large firms affected by US tariffs managed by Canada Enterprise Emergency Funding Corporation. [Pivot to Grow program announced on March 7, 2025](#): a \$500 million over five years for SMEs facing liquidity challenges with concrete impacts to their financials as a direct result of US tariffs, such as cancelled contracts, increased costs, or lost customers and [managed by the Business Development Bank of Canada](#). While it wasn't included in the original announcement of this program, Budget 2025 is clarifying (page 134) that it is to support SMEs of the steel sector facing liquidity challenges because of US tariffs.

## Infrastructure for trade and defence

Budget 2025 proposes to provide \$5 billion over seven years through the **Trade Diversification Corridors Fund** to support infrastructure projects that enhance Canada's supply chain resilience and unlock new export opportunities. Additionally, \$1 billion over four years would be dedicated to the **Arctic Infrastructure Fund** to advance major transportation projects in North Canada. These projects are designed with dual-use civilian and military applications.

## Defence industrial strategy

While the full Defence Industrial Strategy is forthcoming, Budget 2025 has already earmarked \$4.6 billion over five years to strengthen domestic defense supply chains and foster innovation. Key proposed measures include:

- **Defence and Security Business Mobilization Program:** \$1 billion to provide loans, venture capital, and advisory services to SMEs contributing to Canada's defence and security capabilities.
- **Dual-use technology development:** \$657 million over five years to support the development and commercialization of dual-use civilian and military technologies in a range of industries, including aerospace, automotive, marine, cybersecurity, artificial intelligence (AI), biodefense, and life sciences.
- **Quantum innovation:** \$334 million over five years to support quantum companies and defense-related applications through coordinated efforts by ISED, NRCan, and the Natural Sciences and Engineering Research Council (NSERC).

## Critical minerals strategy

Budget 2025 proposes to provide \$2 billion over five years to create the **Critical Minerals Sovereign Fund** to support and accelerate strategic investments in critical minerals projects and business through equity stakes, loan guarantees, and offtake agreements. Additional proposed measures include:

- **First and Last Mile Fund:** \$372 million over four years to develop upstream and midstream supply chains for near-term critical mineral projects.
- **R&D in processing technologies:** An additional \$443 million over five years for R&D in critical minerals innovative processing technologies, delivered through the NRCan and ISED.

## Large-scale sovereign compute capacity

To ensure Canada's competitiveness in AI and advanced computing, Budget 2025 proposes to provide \$926 million over five years, starting in 2025-2026, for the **development of sovereign AI compute infrastructure**. Administered by ISED, this initiative would support both public and private sector research and innovation. Of the total funding, \$800 million will be drawn from previously provisioned resources, reinforcing Canada's commitment to building robust, secure, and scalable digital infrastructure.

## Deloitte's perspective

Budget 2025 reinforces Canada's ambition to drive sustainable growth through targeted incentives in strategic sectors and significant infrastructure investments. These measures have the potential to catalyze public and private-sector investments, strengthen competitiveness, and accelerate the transition to a low-carbon economy.

Deloitte believes that the incentive commitments outlined in Budget 2025 represent promising steps toward building a more resilient economy. These measures could create pivotal opportunities to accelerate innovation and enhance global market competitiveness, while also supporting industries facing challenges such as US tariffs.

To realize these benefits, the Canadian government must simultaneously define a clear and efficient pathway for the implementation of these measures. While ensuring support is provided to the right targeted industries and businesses, it is essential to streamline processes to accelerate access to funding and maximize the impact on the Canadian economy.

Clarity, efficiency, and predictability are key. With greater confidence in the system, businesses will be more inclined to invest, thereby fueling resilient growth, driving innovation, boosting productivity, and enhancing Canada's global competitiveness.

### **How can Deloitte help?**

Deloitte professionals will continue to monitor the legislative process and any changes to the incentives contained in the budget.

We can help you understand how these incentive measures, or any previously announced measures, may impact your business or your investment and innovation projects. If you have any questions, please reach out to your Deloitte advisor or any of the individuals noted in this alert. More specifically, Deloitte's Global Investment and Innovation Incentives (G<sup>2</sup>) group is available to assist you in identifying potential incentives, current and/or forthcoming, to support your investments and innovations.



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