Expanding Flow-Through Share Incentives to Strategic Sectors

Sponsor:

Timmins Chamber of Commerce

Background

What is the issue and who is it impacting?

Canada faces a structural gap in early-stage private capital formation for strategically important innovation sectors. Firms in life sciences, artificial intelligence, advanced manufacturing, and defence and security technologies are typically capital-intensive, pre-revenue for extended periods, and rely on external equity financing to progress from research to commercialization.

Despite strong public investment in research and development, Canada continues to experience weak domestic commercialization outcomes and underperformance in private-sector investment intensity relative to peer OECD economies. Canada's gross domestic expenditure on research and development represents approximately 1.8 per cent of GDP compared to an OECD average of approximately 2.7 per cent. This gap is attributed to structural barriers in accessing financial supports for early-stage firms at both small and large scales.[1]

At the firm level, this financing gap often results in undercapitalization during critical pre-commercial stages, limiting scale-up potential and increasing the likelihood of foreign acquisition or relocation to jurisdictions with deeper risk capital ecosystems.

While federal programs such as the Scientific Research and Experimental Development (SR&ED) tax incentive support research activity, they primarily function as post-expenditure supports. They are not designed to directly address upfront costs of raising private equity capital required for commercialization-intensive growth phases. Federal consultations on SR&ED have also identified structural challenges[2,3] in participation among smaller firms accessing R&D financing supports[4], while federal strategy documents, including Canada’s Defence Industrial Strategy (2026), have identified early-stage private capital availability as a constraint on domestic firms participating in strategic and security-related supply chains.[5]

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[1] Organisation for Economic Co-operation and Development, OECD Economic Surveys: Canada 2025, OECD Publishing, 2025. https://www.oecd.org/en/publications/oecd-economic-surveys-canada-2025_28f9e02c-en

[2] Department of Finance Canada, Consultation Paper: Scientific Research and Experimental Development, Government of Canada, 2024. https://www.canada.ca/en/department-finance/programs/consultations/2024/consultation-on-scientific-research-and-experimental-development/consultation-paper-on-scientific-research-and-experimental-development.html

[3] Department of Finance Canada, Second Phase of Consultations on the Scientific Research and Experimental Development Tax Incentive Program, Government of Canada, April 25, 2024. https://www.canada.ca/en/department-finance/programs/consultations/2024/second-phase-of-consultations-on-the-scientific-research-and-experimental-development-tax-incentive-program.html

[4] Carolyn Rogers, "Time to Break the Glass: Fixing Canada's Productivity Problem," Bank of Canada, March 26, 2024. https://www.bankofcanada.ca/2024/03/time-to-break-the-glass-fixing-canadas-productivity-problem/

[5] Department of National Defence, Canada's Defence Industrial Strategy: Security, Sovereignty, Prosperity, Government of Canada, February 2026. https://www.canada.ca/en/department-national-defence/corporate/reports-publications/industrial-strategy/security-sovereignty-prosperity

Together, these dynamics point to a structural gap between research support mechanisms and commercialization financing needs in strategic sectors of the Canadian economy.

What needs to be done? Why and how?

Canada already employs tax-based mechanisms to mobilize private capital in high-risk, capital-intensive sectors through the flow-through share (FTS) regime, primarily in the mining and resource exploration sector. Under this mechanism, eligible corporations renounce qualifying expenditures to investors, who apply them against taxable income, effectively lowering the after-tax cost of investing in early-stage, high-risk ventures.

In 2024, flow-through share financings generated over $1 billion in private investment and accounted for a majority share of exploration capital raised on Canadian stock exchanges[6]. The FTS model has demonstrated effectiveness in mobilizing private capital for exploration activity; however, its application remains largely confined to the resource sector despite similar financing characteristics existing in several innovation-intensive industries.

Internationally, comparable tax-based investment incentive frameworks, such as the United Kingdom's Enterprise Investment Scheme and related Seed Enterprise Investment Scheme, have supported early-stage investment in over 59,000 companies across technology, life sciences, and advanced manufacturing sectors, mobilizing approximately £34 billion in private investment since the EIS was introduced in 1994.[7]

Within Canada, policy signals have also emerged supporting consideration of expanded use of FTS mechanisms[8], including federal intent to explore application of flow-through share financing to innovation-oriented sectors such as artificial intelligence, quantum computing, biotechnology, and advanced manufacturing.[9] Expanding FTS eligibility to additional sectors requires amendment to the *Income Tax Act*, and can only be achieved through an act of Parliament.

A targeted pilot expansion is the appropriate policy design for this stage. A pilot structure limits fiscal exposure during an initial evaluation period, is consistent with the incremental approach taken in expanding the FTS regime within the resource sector, and enables systematic data collection on capital mobilization, sectoral uptake, and administrative feasibility before broader legislative adoption is considered. This creates a policy opportunity to assess whether the FTS mechanism can be adapted to support commercialization-stage investment in strategic innovation sectors while maintaining fiscal oversight and program integrity.

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[6] Natural Resources Canada, Canadian Mineral Exploration Information Bulletin, April 2026. http://natural-resources.canada.ca/minerals-mining/mining-data-statistics-analysis/minerals-mining-publications/canadian-mineral-exploration-information-bulletin-0

[7] HM Revenue and Customs, Enterprise Investment Scheme, Seed Enterprise Investment Scheme and Social Investment Tax Relief Statistics: 2024, Government of the United Kingdom, 2024. https://www.gov.uk/government/statistics/enterprise-investment-scheme-seed-enterprise-investment-scheme-and-social-investment-tax-relief-may-2024/enterprise-investment-scheme-seed-enterprise-investment-scheme-and-social-investment-tax-relief-statistics-2024 ; Enterprise Investment Scheme Association, EIS and SEIS Facts and Figures, 2024. https://www.eisa.org.uk/about-eis/facts-and-figures/

[8] Borden Ladner Gervais LLP, "The Expansion of Flow-Through Shares to Innovation: Waiting for Godot?," 2025. https://www.blg.com/-/media/insights/2025/documents/25-bd12805-national-tax-expansion-of-flow-through-shares-to-tech-article-final.pdf

[9] Liberal Party of Canada, Canada Strong: Build, 2025 Federal Election Platform, 2025. https://liberal.ca/cstrong/build/

Recommendations

That the Government of Canada:

1. Establish a targeted, three-year pilot expansion of the flow-through share framework under the *Income Tax Act* to include corporations operating in life sciences and biotechnology, artificial intelligence, advanced manufacturing, and defence and security technologies, subject to a formal evaluation prior to consideration of broader adoption.
2. Define eligible expenditures under the pilot to include commercialization and applied research activities such as prototyping, testing, pre-production scale-up, and expenditures qualifying under the Scientific Research and Experimental Development program criteria.
3. Develop clear eligibility criteria, reporting requirements, and anti-avoidance provisions for the pilot in consultation with industry stakeholders and the Department of Finance Canada, to ensure fiscal integrity, program accountability, and consistent administration across jurisdictions.
4. Conduct a formal evaluation of the pilot's effectiveness in mobilizing early-stage private capital, supported by structured consultation with participating firms, investors, and relevant sectoral organizations to inform potential refinement or expansion of the framework.

Signatories

- Cambridge Chamber of Commerce
- Greater Barrie Chamber of Commerce
- Greater Saskatoon Chamber of Commerce
- Greater Sudbury Chamber of Commerce
- Halton Hills Chamber of Commerce
- North Bay Chamber of Commerce
- Prince George Chamber of Commerce
- Sault Ste. Marie Chamber of Commerce
- Thunder Bay Chamber of Commerce