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Innovation Catalyst | Q2 2025
Global R&D Tax Incentives Digest

Audience: CFOs, CTOs, Finance Leaders

Quarter in Review – Q2 2025

United States

- **Legislative Push to Restore Full R&D Expensing (Section 17**
  A bipartisan coalition in Congress is advancing H.R.1990, the American Innovation and R&D Competitiveness Act, which would retroactively reinstate full expensing of R&D costs from 2022 onward. This change would reverse the TCJA's amortization rule, potentially unlocking billions in refunds for tech, manufacturing, and pharmaceutical companies. Source
- **IRS Form 6765 Section G Becomes Mandatory in 2025**
  Starting tax year 2025, the IRS will require expanded disclosures via Form 6765 to include Section G, requiring taxpayers to report business component-level detail on qualified research activities and expenses. This mandates stronger documentation systems, particularly for software and integrated engineering projects. Source

United Kingdom

- **Unified RDEC Regime for All Companies**
  As of April 2024, the UK has fully merged its SME and large company schemes into the R&D Expenditure Credit (RDEC) system. While simplifying administration, the shift reduces benefits for some SMEs, sparking debate over future competitiveness. Source

In response to £4.1 billion in historic R&D claim fraud, HMRC is piloting a policy to mandate advance assurance—especially for first-time filers or high-risk sectors. This adds a pre-claim compliance gate, demanding robust technical narratives and audit-ready documentation. Source

Canada

- **SR&ED Remains the World's Most Generous R&D Program**
  Canada continues to lead globally with its SR&ED program, offering 35% refundable credits federally and stacking with provincial incentives to reach up to 64% total subsidy. The program remains attractive for R&D-intensive SMEs and multinationals with Canadian hubs. Source

Australia

- **Quarterly R&D Refund Model Under Consideration**
  The Australian government is consulting on a potential shift to quarterly R&D tax credit refunds. With SMEs already benefiting from 43.5% refundable offsets, quarterly payment would dramatically improve cash flow and reinvestment velocity. Source

Global Market Highlights

Country	Recent Policy Development	Strategic Impact
USA	Section 174 reform and IRS Form 6765 Section G	Retroactive refund opportunity + rising documentation threshold
UK	RDEC unified scheme; advance assurance reforms	Reduced SME benefit; increased pre-claim scrutiny
Canada	SR&ED with federal + provincial stacking	World's highest subsidy potential for innovation investments
Australia	43.5% refundable credit + quarterly payout consultation	Liquidity boost for SMEs; FY 2026 transition
Ireland	€75K first-year threshold + three-year refunds	Improved cash support for scaling startups

Emerging Global Trends

Income-Based Relief

Tax incentives are evolving beyond input-focused models. Countries like the UK, Belgium, and the Netherlands are increasingly leveraging "innovation boxes" and IP-based incentives. These reward companies based on income generated from patents or qualifying intellectual property, encouraging commercialization of R&D outcomes. This model encourages long-term investment and a strategic focus on value capture.

Refundable, Cash-First Models

Governments are shifting toward cash-based incentives. Canada and Australia offer refundable credits that can be claimed even without tax liability. Australia is now piloting quarterly R&D refunds, enabling faster capital recycling for high-growth companies. This is a significant change from annual claims, easing working capital pressures and enabling continuous reinvestment in innovation.

Real-Time Audit Readiness

Documentation requirements are rising globally. The IRS now mandates Form 6765 Section G, which requires detailed business component-level evidence. Similarly, HMRC is pushing for digital narratives under the Advance Assurance program. These developments demand that companies adopt real-time tracking, robust internal systems, and automated claim documentation frameworks to withstand audits.

Cross-Border Claim Risk

OECD guidance has flagged the risk of duplicate claims and jurisdictional overlap. Multinational corporations must implement intercompany R&D policies that allocate costs accurately and demonstrate local substance. This includes tracking R&D performed in each country, maintaining transfer pricing documentation, and avoiding double-dipping where local funding or ownership may disqualify foreign claims.

AI and Software Legitimized

AI model development, machine learning infrastructure, software engineering, and even data science are increasingly being recognized under R&D definitions. Countries like the UK and Australia have clarified eligibility to include these areas, responding to industry demand. This helps software-centric companies claim credits with greater confidence, aligning policy with modern innovation practices.

Strategic Metrics

34 out of 38 OECD Countries Use R&D Incentives:
The widespread adoption of R&D tax incentives reflects a global consensus that tax-based mechanisms are critical to national innovation strategies. It is now a baseline policy tool for most industrial economies.

~55% of R&D Support Delivered via Tax Relief:
OECD data shows that more than half of public R&D funding is now provided through tax incentives rather than direct grants. This reduces administrative burden on governments and increases flexibility for businesses.

SMEs Receive Higher Average Subsidy (19%) vs Large Firms (16%):
Policy structures favor small businesses with higher rates, refundability, and fewer thresholds, recognizing the cash constraints faced by early-stage and growth-phase companies.

UK Fraud Exposure – £4.1 Billion:
The magnitude of non-compliant claims in the UK has led to an aggressive policy shift. HMRC is using risk-based targeting, requiring narrative evidence and planning mandatory advance assurance, signaling a zero-tolerance posture going forward.

Australia Disbursed $3B in R&D Credits to 11,500 Firms:
The scale and reach of Australia's program highlight its effectiveness. Planned quarterly disbursements will further solidify Australia's role as a leader in accessible, liquidity-focused R&D support.

Finance Leader Action Plan – Q3

Revisit U.S. Filings for Retroactive Claims:

Model and prepare amended returns in light of pending Section 174 reversal. Use this window to recover cash from 2022–2024 amortized R&D expenses if legislative reform succeeds.

Modernize Documentation Systems:

Implement traceability at the project and business-component level. Prepare for new IRS and HMRC standards that rely on real-time data, structured narratives, and audit-ready documentation pipelines.

Align R&D Geography with IP and Refundability Strategy:

Evaluate R&D site selection in light of income-based tax relief (e.g., patent boxes) and refund-focused regimes (e.g., Australia, Canada). Factor refundability and certainty into capital planning decisions.

Integrate Refund Cycles into Working Capital Plans:

Account for quarterly or fast-track refund programs in forecasting. Adjust R&D budget timing and disbursement to align with these liquidity benefits and improve R&D velocity.

Establish Intercompany R&D Governance:

MNCs should centralize R&D policy across legal entities. Ensure alignment of cost-sharing agreements, IP ownership, and claim rules to reduce audit risk and maximize jurisdictional value capture.

How Certainti.Ai's Think R&D 365 Simplifies R&D Tax Assessment

Certainti.Ai's Think R&D 365 is an AI-powered platform designed to streamline every step of the R&D tax credit assessment process. By integrating AI, automation, and compliance intelligence, **Think R&D 365** helps organizations **maximize tax benefits, reduce audit risks, and accelerate claim timelines**—all while freeing teams from manual work.

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