Buy Canadian – Build Canadian - Own Canadian

Extending Flow-Through Shares for Canadian Technology Startups

Final Submission | August 28, 2026

Give Canadian technology startups a viable first financing path at home - before the financing path is established somewhere else. Let Canadians own a piece of their success.

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Pre-Budget Consultations in Advance of Budget 2026

Recommendation: launch a capped three-year FTS-Tech pilot program focused on Canadian technology **startups in AI, quantum computing, biotechnology and advanced manufacturing**, supporting up to $500 million annually in qualifying technology expenditures financed through private investors' risk capital.

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Recommendation

Budget 2026 should implement the government's 2025 commitment to introduce Flow-Through Shares into Canada's startup ecosystem, initially for Artificial Intelligence, Quantum Computing, Biotechnology and Advanced Manufacturing. [1]

The program should be designed first and foremost for Canadian technology startups - from formation and R&D through product proof, commercialization and early market traction. Later-stage companies may use the mechanism if they remain eligible, but Series B, C and D financing is not the policy target. The purpose is to help more Canadian companies get far enough to need those later rounds in the first place.

We recommend a three-year FTS-Tech pilot supporting up to $500 million annually in qualifying technology expenditures financed through Flow-Through Shares using **private investors' risk capital**.

If qualifying demand reaches or materially approaches that ceiling, Finance Canada should review utilization before the following year and be able to increase the annual ceiling, up to $750 million, subject to fiscal capacity, compliance and evidence that the incentive is attracting additional private capital

Startup capital is the target. Scale-up success is the downstream objective.

Executive Summary

Canada's technology financing problem begins earlier than the later-stage numbers suggest. The **National Angel Capital Organization's [** NACO] 2026 work with Startup Genome, based on roughly 65,000 funding rounds, reports that Canadian startups at seed receive rounds about 40% smaller than comparable U.S. startups, take more than five months longer to close, and enter a seed funnel about 20% narrower. It estimates a cumulative pre-seed, seed and Series A funding gap above US$1.6 billion over five years. [2]

The **Business Development Bank of Canada** (BDC) reaches a compatible conclusion from a broader venture-capital perspective: seed activity remains relatively strong, but the step from seed to commercialization is a structural bottleneck, capital becomes scarcer at Series A and beyond, and reliance on foreign capital rises as companies mature. [3]

Budget 2025 itself recognized the capital problem, committing $1 billion for a new Venture and Growth Capital Catalyst Initiative and $750 million to support firms facing early growth-stage funding gaps. Those measures use public and institutional channels. FTS-Tech would complement them with a different market channel: government defines the rules and provides the tax incentive; Canadian private investors decide which qualifying startups deserve their own capital and can participate in the financial upside if those companies grow. [4]

The case is not that Canadian founders should stay in Canada out of patriotism. Capital is mobile, founders are rational, and companies go where financing is available. The policy objective is simply to make Canada a more competitive place to obtain the first meaningful risk capital.

That first financing choice matters because financing relationships compound. When a startup's first serious investors, advisers and board relationships are built inside the U.S. capital ecosystem, later rounds naturally tend to follow those existing networks. By the time Canada worries about where a Series C is being raised, a more important financing decision may already have been made years earlier. TD-Bank's Chief Economist, Beata Caranci, called it the "flywheel effect.

The more than 500 U.S.-based technology companies now identified with Canadian-connected founders, collectively associated with more than US$400 billion in capital raised, illustrate the downstream scale of Canadian-developed entrepreneurial capacity operating inside the U.S. ecosystem. They do not prove why any individual founder chose the United States, and this submission does not claim they do. [6]

Budget 2026 should therefore test a narrower proposition: if Canada improves the after-tax risk/reward equation for private investors at the startup stage, can more Canadian technology companies obtain the capital required to be born, commercialized and established here before their financing path is set elsewhere?

1. The Problem Starts Early

NACO's evidence is especially important because it moves the debate away from the idea that Canada only has a late-stage capital problem. Canadian seed rounds are smaller and slower, fewer firms make it through the early financing funnel, and the gap compounds as companies move toward Series A and beyond. NACO summarizes the problem bluntly: "This is not a growth stage problem. This is an early stage problem showing up at the growth stage." [2]

That is the policy problem FTS-Tech should address. A company cannot raise a Series B, C or D if it never receives enough capital to survive pre-seed, seed, product development and early commercialization.

Later-stage data still matter - as evidence of what happens downstream. The Canadian Venture Capital & Private Equity Association (CVCA) reported that foreign investors participated in 56% of later-stage Canadian rounds in the first half of 2026, up from 30% a year earlier, while U.S. investors participated in 44%, up from 19%. Growth-stage financing totalled only $127 million across three transactions. [5]

Foreign investment is valuable and should be welcomed. The objective is not to replace U.S. capital or put walls around Canadian companies. It is to ensure that more companies reach later stages with a Canadian base, Canadian operating substance and meaningful Canadian investors already around the table.

2. Early Financing Choices Compound

The Dominion List/Barn Ventures analysis currently identifies 517 U.S.-based companies with a Canadian-connected founder. Together they have raised about US$414 billion. The list is curated, not a census, and a Canadian connection can include being born, educated or trained here. Those limitations matter. [6]

What the list does show is the extraordinary enterprise-building capacity associated with Canadian-developed talent - and the scale of company-building occurring inside the U.S. technology and capital ecosystem. See Annex E for the full assumptions, formulas and sensitivity tests.

We do not know how many of those founders went south because of financing. No responsible submission should pretend otherwise. But there is direct evidence that investor access can influence corporate location. In February 2026, Y Combinator President Garry Tan wrote that YC had observed its top Canadian companies reincorporating in the United States, likely because U.S. incorporation provided easier access to investor capital at Demo Day. [7]

That is the point. This is not about patriotism. It is about availability. If the first meaningful capital is easier to obtain in the United States, entering that ecosystem can be the rational financing decision. Once that network is established, there is little reason for a successful company to rebuild it in Canada later.

> The policy question is not how to bring a company back after Series C. It is how to give more founders a viable Canadian financing option before that path is established.

3. Canada Already Knows the Mechanism

Flow-Through Shares [FTS] are not a new tax concept. Finance Canada states that FTS deductions have existed in various forms since the 1950s and that the current regime dates to Budget 1986. The measure has been used to help qualifying resource and renewable-energy activity raise private capital by transferring eligible deductions to investors. [8]

Budget 2025 did not retreat from the model. It expanded eligibility for the 30% Critical Mineral Exploration Tax Credit to 12 additional critical minerals for qualifying expenditures renounced under Flow-Through Share agreements. [9]

FTS-Tech would require legislative drafting, new definitions, coordination with SR&ED and appropriate compliance rules. Technology is not mineral exploration. But Canada would be adapting an established tax architecture rather than creating a new grant-delivery institution.

4. Britain Shows What the Principle Can Do in Innovation

The United Kingdom [UK} comparison is relevant because the policy lineage runs in both directions. Former Finance Minister John Manley has written that Britain "borrowed the Canadian concept" when it created the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS). He summarized the lesson this way: "Canada invented the model. Britain improved it." The programs are not mechanically identical to Canadian FTS, but they apply the same broad policy idea: change the investor's after-tax risk/reward equation while private investors choose the companies. [10]

His Majesty's Revenue and Customs' [HMRC] May 2026 official statistics show that in 2024-25, 3,735 companies raised GBP 1.575 billion through EIS and 2,430 companies raised GBP 276 million through SEIS. Information and Communication companies received Pound Sterling [GBP] 550 million, or 35% of EIS investment, and GBP 115 million, or 42% of SEIS investment. [11] *{1 Pound Sterling = 1.88 Canadian Dollar.}*

After more than three decades, Britain has not abandoned the approach. EIS has been extended to 2035, and effective April 2026 the UK doubled key company investment limits - including the normal annual limit from GBP 5 million to GBP 10 million and the knowledge-intensive annual limit from GBP 10 million to GBP 20 million. [12] [13]

The UK evidence does not prove that a Canadian FTS-Tech program will automatically produce British outcomes. It does show that a mature economy has used investor-side tax incentives for early-stage companies for decades, evaluated them, adjusted them and recently expanded them.

5. Design FTS-Tech for Startups First

The four initial areas should be those already identified in the government's 2025 commitment: AI, quantum computing, biotechnology and advanced manufacturing. Eligibility should be based on prescribed activities and expenditures, not simply on a company calling itself an AI or biotech business. [1]

The principal target should be Canadian-resident, R&D-intensive startups moving from formation through product proof, commercialization and early market traction. Finance should define objective age, revenue, asset and qualifying-expenditure tests, with sector-appropriate flexibility for fields such as biotechnology and quantum where development cycles are longer.

Later-stage companies need not be categorically excluded if they continue to meet the eligibility rules and incur substantial qualifying Canadian R&D expenditures. But the program should not be designed around financing mature Series C or D rounds. Its success should be judged primarily by whether more startups obtain the first meaningful risk capital required to become viable Canadian companies.

Core design rules

- Three-year initial authorization.
- Up to $500 million annually in qualifying FTS-Tech expenditure renunciations - a ceiling on eligible renunciations, not $500 million of government spending.
- Annual utilization review. If qualifying demand reaches or materially approaches the ceiling, Finance may raise the following year's ceiling, up to $750 million, based on fiscal capacity, compliance and evidence of additionality.
- Begin with prescribed Canadian R&D and experimental-development expenditures; Finance may include narrowly defined prototype and testing costs integral to commercialization.
- Explicit coordination with SR&ED and other federal incentives to prevent unintended duplicate support on the same expenditure.
- No additional special technology investment tax credit during the initial launch. Test the core FTS deduction first.
- Canadian residence and meaningful Canadian economic substance: qualifying R&D and use of FTS proceeds substantially in Canada, plus reporting of headquarters, employment, material IP ownership and changes in control.
- Anti-avoidance rules for related-party transactions, passive uses of capital and artificial structures.
- Government defines eligibility and guardrails. Canadian private investors decide which qualifying startups receive their capital. Investors may participate directly or, where permitted by securities law, through privately managed pooled vehicles. Government does not select individual portfolio companies.

6. Let Canadians Back Canadian Innovation

FTS-Tech offers a complementary model of innovation finance. Canada is already prepared to commit substantial public resources to venture-capital and early-growth programs. Those programs may play an important role. FTS-Tech adds a different channel: it uses the tax system to encourage Canadians to put their own private money at risk behind qualifying Canadian startups. [4]

Instead of relying only on public capital routed through institutional programs, government sets the eligibility rules and tax guardrails while Canadian investors decide whether and where to invest their own money. Entrepreneurs must earn that confidence. If a startup succeeds, the investor participates in the financial upside while Canada benefits from the company, its R&D, jobs, payroll, exports and future tax base. **The tax deduction changes the risk/reward equation; it does not guarantee an investment outcome.**

That alignment of personal financial incentive with a national economic objective is the investment-side counterpart to "Buy Canadian." It is not about asking Canadians to invest out of patriotism. It is about giving them a competitive financial reason to back Canadian innovation and, where securities law permits, an opportunity to own part of the value they help create. **In that sense, FTS-Tech can help Canadians help themselves financially by helping Canadian startups grow.**

> *Government sets the rules. Canadians put up the capital. Canadians choose the companies. Entrepreneurs earn the investment. Canada measures the result.*

Private startup investing remains risky and is not suitable for everyone. FTS-Tech should not override provincial or territorial securities law or promise universal retail access on day one. Direct investment and lawful pooled vehicles should remain subject to existing investor-protection rules, with broader participation developed responsibly over time. See Annex D.

7. Fiscal Discipline: Cap It, Measure It, Publish the Results

FTS-Tech has a tax cost. The **Parliamentary Budget Officer** [PBO] estimated the broad 2025 platform commitment at $2.765 billion over five fiscal years. The PBO also identified material uncertainty around sector activity, how closely resource-sector experience would translate, issuing-company tax positions, investor capacity, interactions with other credits and behavioural response. [14]

That is precisely why the initial program should be capped and measured rather than launched without a ceiling. The proposed $500 million limit constrains the amount of qualifying expenditure that can be renounced nationally and gives Finance real utilization data before any expansion.

The final fiscal estimate should be produced by Finance Canada using its established FTS methodology. Finance's 2026 tax-expenditure report recognizes both the revenue forgone when investors use transferred deductions and incremental revenue associated with the zero adjusted cost base when FTS shares are sold. Finance also states that its conventional cash-flow estimates represent an upper bound because they effectively assume issuing corporations would never otherwise use the transferred expenses. [15] [17]

The principal taxpayer performance measure should be simple:

> Additional private capital mobilized per dollar of federal tax expenditure

Government should also measure capital raised alongside FTS-Tech, follow-on financing, startup survival and commercialization, Canadian employment and R&D payroll, revenues and exports, headquarters location, material IP ownership, acquisitions and changes in control, and whether investors say the incentive changed the amount or timing of their investment.

At the end of three years, the choices should be explicit: expand, continue, redesign or end. A willingness to stop a policy that does not demonstrate sufficient additionality is part of the case for trying it.

Conclusion - Fix the First Financing Equation

Canada does not need Flow-Through Shares because every promising company should remain Canadian forever. Successful Canadian startups should sell globally, attract global investors and build wherever customers require.

The problem is earlier and simpler: too many founders face a deeper and faster capital market elsewhere at the moment when the company is being born. If the first serious financing has to come from the United States, the company enters a U.S. investor network early. Later rounds then tend to follow the relationships already established.

The 517 U.S.-based companies with Canadian-connected founders and more than US$400 billion raised are downstream evidence of the scale of company-building occurring in that ecosystem. They are not proof of individual motives. The later-stage foreign-capital numbers are also downstream. Both point back to the importance of the first financing years.

Canada already uses Flow-Through Shares to alter the risk equation for private investors in strategically important, uncertain activity. Britain has spent more than 30 years applying the investor-incentive principle to young innovative companies. The federal government has already committed to apply the FTS principle to Canadian startups in four strategic technology areas.

FTS-Tech also gives Canadians a way to participate on the ownership side of Canadian innovation. "Buy Canadian" should not stop at the checkout counter. Canadians who choose to accept the risk should have a practical opportunity to invest in qualifying Canadian startups, help finance their growth and share in the value created when those companies succeed.

The objective is not to make investment decisions patriotic. It is to make the Canadian option financially competitive: give founders another source of startup capital, give Canadians another way to own Canadian innovation, and let the market decide which qualifying companies earn that support.

Give more Canadian startups enough private risk capital to be born here, commercialized here and established here - before the financing path is set somewhere else.

Thirty Years of UK Evidence: EIS and SEIS

Canada does not need to evaluate the principle of using the tax system to encourage private investors to finance high-risk economic activity from theory alone. Canada has decades of experience using Flow-Through Shares in resource exploration. The United Kingdom provides a complementary international case study: more than 30 years of investor-side tax incentives for young, innovative and knowledge-intensive businesses through EIS and, since 2012, SEIS.

The mechanisms are not identical to Canadian Flow-Through Shares. Their common policy principle, however, is directly relevant: government changes the after-tax risk/reward equation for private investors, while private investors rather than government officials decide which individual businesses receive capital.

1. Can an investor-side tax incentive mobilize significant amounts of private capital?
2. Does that capital reach innovative and knowledge-intensive companies?
3. Is participation associated with company growth, employment and further financing?
4. After decades of experience, does government continue to consider the mechanism worth retaining?

1. The Programs Continue to Mobilize Significant Private Capital

HMRC's May 2026 Accredited Official Statistics show that EIS remains a significant source of private financing more than 30 years after its introduction. In 2024-25, 3,735 companies raised £1.575 billion through EIS, including 1,145 companies using EIS for the first time. SEIS financed another 2,430 companies with £276 million, with roughly 1,775 of those businesses raising through the scheme for the first time.

2. Technology Is One of the Largest Beneficiaries

Information and Communication companies attracted £550 million through EIS in 2024-25 - 35% of all EIS investment. Under SEIS, Information and Communication attracted £115 million, or 42% of all SEIS investment. This is direct current evidence that investor-side incentives can attract private capital into the type of knowledge-intensive businesses Canada is seeking to finance and scale.

3. Thirty Years of Accumulated Evidence

For EIS's 30th anniversary, the Enterprise Investment Scheme Association commissioned Beauhurst to examine the program's economic footprint. The study reports approximately £32 billion invested since 1994, more than 56,000 UK companies supported, roughly £192 billion in turnover generated by EIS-backed companies between 2014 and 2023, and approximately £28.2 billion in turnover in 2023 alone. The research also reports nearly 400,000 UK jobs in EIS-backed businesses in 2023 and significant participation among firms that reached unicorn status.

These are economic-footprint findings from an industry-sponsored study and should supplement, rather than replace, independent government evaluations.

4. The UK Government Has Tested Whether the Programs Actually Work

HMRC commissioned independent evaluations of EIS and SEIS using surveys, interviews, administrative data and econometric analysis. The EIS evaluation found that 95% of investees were new independent startups; 48% qualified as knowledge-intensive; 67% had claimed R&D tax relief; and 29% had applied for at least one patent. Three-quarters strongly agreed that the financing had led their companies to grow, while 53% considered it unlikely they would still have been operating without the scheme.

The SEIS evaluation associated participation with 23% higher turnover, 12% higher employment and 245% greater assets relative to its comparison group, while appropriately cautioning that self-selection limits causal certainty.

5. Evidence That the Incentive Changes Investor Behaviour

The SEIS evaluation found that 46% of investors said they would be discouraged from making these investments if the income-tax relief were removed altogether, while another 34% indicated they would invest less. This goes directly to the core policy question: whether the incentive creates additional investment or simply rewards investment that would have happened anyway.

6. After Thirty Years, Britain Expanded Rather Than Abandoned the Model

The UK extended EIS to April 2035. Effective April 6, 2026, it then doubled several important company limits: the normal annual amount rose from £5 million to £10 million; the annual limit for knowledge-intensive companies rose from £10 million to £20 million; and normal and knowledge-intensive lifetime limits were also doubled. The stated objective was to continue supporting early-stage businesses and companies scaling up.

7. Broader Investor Participation

HMRC reports that 11,200 individual investors claimed SEIS income-tax relief in 2024-25 and 56% invested £10,000 or less. Only about 3% invested more than £100,000. This does not mean participation is evenly distributed, but it shows that investor-side incentives do not have to be structured solely around very large individual investments.

8. The Canadian Connection

Flow-Through Shares and EIS/SEIS are not mechanically identical. Former Canadian Finance Minister John Manley has nevertheless written publicly that Britain borrowed the Canadian concept in developing EIS and SEIS. For the submission, the stronger policy point does not depend on proving a direct legislative genealogy: Canada has demonstrated that tax policy can encourage private risk capital in strategically important activity, while Britain has demonstrated over three decades that investor-side incentives can mobilize private capital for innovative early-stage businesses.

9. What the United Kingdom Proves - and What It Does Not

- Investor-side tax incentives can mobilize private capital at meaningful scale.
- They can be targeted toward innovative, knowledge-intensive companies.
- The incentives can materially influence investor behaviour.
- Participating companies show evidence of growth, employment, innovation and follow-on financing.
- The mechanisms can operate over decades and be adjusted as economic needs change.
- After more than 30 years of evidence, the UK is expanding rather than abandoning the model.

The UK evidence does not establish that an equivalent Canadian program would automatically reproduce British outcomes. Tax systems, capital markets and securities rules differ. The lesson is narrower and more useful: Canada has a credible body of evidence from which to design and evaluate its own program.

Sources:

HMRC EIS/SEIS Accredited Official Statistics (May 2026); HMRC EIS/VCT and SEIS evaluations; UK Government EIS/VCT limit changes; UK Government extension to 2035; Beauhurst/EISA 30th-anniversary research; C.D. Howe Institute/John Manley.

Full source URLs are provided in Annex F. Annex A text is carried forward unchanged from the frozen UK evidence annex.

Canada's Startup Capital Gap and Its Downstream Consequences

The main submission is intentionally startup-first. The evidence below separates the upstream problem - insufficient early risk capital - from the downstream consequences that become visible later in the financing pipeline.

1. The early-stage gap is directly documented: Seed Capital Is Still Under Pressure

The Canadian Venture Capital & Private Equity Association (CVCA) reported $2.69 billion invested across 250 Canadian venture-capital deals in H1 2026, up 17% year-over-year. But seed financing fell 31% to just $285 million across 82 deals. At the same time, 16 financings of $50 million or more absorbed 59% of all venture capital deployed.

The implication is clear: rising aggregate VC investment does not mean young Canadian technology companies have adequate access to their first meaningful rounds of private risk capital.

2. Government already recognizes the early financing problem

Budget 2025 committed $750 million to support Canadian firms facing early growth-stage funding gaps, alongside $1 billion for the Venture and Growth Capital Catalyst Initiative. These measures use public and institutional channels. FTS-Tech would add a different channel - a tax mechanism designed to attract private taxable investors into qualifying startups. [4]

3. Domestic Capacity Weakens as Financing Needs Grow

Canadian investors remain meaningful participants in smaller rounds. As financing requirements increase, foreign participation becomes more important. In H1 2026, foreign investors participated in 56% of later-stage rounds, while U.S. participation rose to 44%. Growth-stage financing amounted to only $127 million across three deals. This is not an argument against foreign capital. Canadian companies should attract global investment.

The policy objective is to give Canadian private capital greater capacity to participate earlier and remain involved as successful companies grow.

3. Venture Economics Remain Challenging

Business Development Bank of Canada (BDC) reports that Canada’s 10-year net venture-capital IRR fell to 8.6% in 2025, compared with approximately 13.7% in the United States. More than $3 billion of unrealized value also remains in Canadian funds with vintages of 2016 or earlier, slowing the recycling of capital into new funds and companies.

FTS-Tech should therefore be positioned as complementary capital — not a replacement for venture capital, but a mechanism to bring additional private Canadian money into high-risk technology investment.

4. Later-stage foreign participation is a downstream indicator

CVCA's H1 2026 data show foreign investors in 56% of later-stage rounds and U.S. investors in 44%, while growth-stage financing was only $127 million across three transactions. These figures matter, but they are not the target of FTS-Tech. They show what the capital continuum looks like after companies have survived the startup years. [5]

5. Capital Geography Matters Early

BDC’s migration analysis does not show a mass exodus of Canadian entrepreneurs. It does, however, find that U.S. entrepreneurship visas issued to Canadians during 2015–2024 were equivalent to about 3.4% of Canada’s entrepreneurial population — double the share in the previous decade.

The significance lies less in the number of people than in the potential value they create.

The Y Combinator episode in early 2026 made the same connection visible. YC temporarily removed Canada from the jurisdictions in which participating firms could incorporate before reversing the decision. Its president suggested that U.S. incorporation made investor capital easier to access.

That episode does not prove the FTS-Tech case. It does show that corporate geography and access to capital can become connected very early in a startup’s development.

6. The 517-company list is downstream evidence, not a motive survey

Barn Ventures' Dominion List analysis identifies 517 U.S.-based companies with a Canadian-connected founder, roughly US$414 billion raised, 56 companies with disclosed valuations of at least US$1 billion, 19 public companies and 59 acquired companies. Barn explicitly describes the list as a curated catalogue rather than a census. [6]

This submission does not claim that those founders moved because they could not raise in Canada. We do not know their individual motives. The defensible inference is narrower: Canadian-developed talent is building a very large amount of enterprise value inside the U.S. capital ecosystem, and capital availability is one factor that can influence where companies establish themselves.

Y Combinator provides a concrete example. In February 2026, Garry Tan wrote that YC had observed its top Canadian companies reincorporating in the United States, likely because U.S. incorporation provided easier access to investor capital at Demo Day. [7]

7. Financing path dependence is the policy issue

Once a startup's first meaningful investors, board relationships, advisers and follow-on financing network are concentrated in one ecosystem, later financing commonly follows those established relationships. FTS-Tech is therefore aimed at making Canada more competitive at the point when that path is first being formed - not at asking a successful Series C company to reverse course for patriotic reasons.

8. August 2026 Evidence Reinforces the Private-Capital Case

New Canadian evidence published in August 2026 points in the same direction. The Council of Canadian Innovators (CCI) argued that early-stage companies remain constrained by access to private capital and pointed to investor tax incentives as a means of encouraging more angel and venture investment.

CCI also noted that more than half the capital raised by Quebec venture funds comes from public or government-affiliated sources, and later called for federal tax incentives that would encourage investors to make riskier, earlier-stage bets in innovative Canadian companies.

These proposals are not FTS-Tech. But the policy logic is the same: use the tax system to improve the risk/reward equation for private investors and mobilize more domestic risk capital.

The Toronto Region Board of Trade reached a similar conclusion. Its *Capital to Compete* report argues that Canada has both capital and promising companies, but that the financial "plumbing" connecting the two is broken. It calls for measures to mobilize more Canadian equity capital and reduce tax and regulatory barriers to investment.

Taken together, the evidence supports a simple conclusion:

Canada does not merely need more government innovation spending. It needs better mechanisms for directing more Canadian private risk capital toward Canadian technology companies.

9. Sensitivity analysis summary - full model in Annex E

The 517-company figure should not be converted into a claim that Canada historically lost US$414 billion. Capital raised is not GDP, profit or tax revenue. A scenario analysis can, however, illustrate the economic significance of where companies scale if every assumption is transparent.

Assumption	Original middle case	Stress case	Comment
Average employees per company	500	250	Cut in half
Canadian retention scenario	50%	25%	Cut in half

Associated jobs per direct job	1.0	0.5	Cut in half
Resulting direct jobs	129,250	32,313	Illustrative
Resulting total jobs	258,500	48,469	Illustrative
Resulting annual GDP	$20.7B	~$4.0B	Illustrative, not historical loss

The stress case still produces an economically material result even after three major assumptions are cut simultaneously. This is not a forecast. It is an invitation to challenge the assumptions while recognizing that company location can have large downstream consequences. Annex E provides the complete evidence chain, official benchmark cross-check, formulas and an additional 100-employee downside case.

Innovation, Science and Economic Development Canada's (ISED) official 2024 Information and Communications Technology sector (ICT) profile provides useful context: average ICT salary was $103,460; each direct ICT job supported about 1.1 additional jobs in the Canadian economy; and each $1 million of direct ICT GDP generated another $895,580 of GDP. The scenario above deliberately uses lower employment and GDP multipliers. The largest uncertain inputs remain average employment per company and the counterfactual share of activity that might have remained in Canada. [18]

Conclusion

Canada produces founders, researchers, engineers and technology companies capable of competing globally. The weakness lies in mobilizing enough domestic private risk capital early enough — and in sufficient depth — for more Canadians to participate in financing and owning those companies as they commercialize and grow.

FTS-Tech would not replace venture capital, government R&D programs or foreign investment. Nor would government select individual companies for investment. It would create an additional pathway through which private investors could choose to put their own capital at risk in qualifying Canadian technology companies.

That is the objective of the proposed three-year FTS-Tech pilot: **mobilize up to $500 million annually in private investors' risk capital for qualifying Canadian technology expenditures through Flow-Through Shares.**

Sources

BDC, *Canada's Venture Capital Landscape 2026*
CVCA, *H1 2026 Canadian Venture Capital Market Overview*
Council of Canadian Innovators, August 2026 capital-policy research
Toronto Region Board of Trade, *Capital to Compete*
ISED, *Canadian ICT Sector Profile 2024*
Dominion List/Barn VC analysis
Y Combinator
What If They Had Built Here? supporting scenario analysis

Program Architecture and Fiscal Design

1. Policy objective

Increase the supply of private risk capital available to Canadian technology startups during formation, R&D, product proof, commercialization and early market traction, while broadening the opportunity for Canadian investors to own a share of the innovation they help finance. Later-stage use may occur where an issuer remains eligible, but it is not the design objective.

2. Launch parameters

- Three-year initial authorization.
- Initial sectors: AI, quantum computing, biotechnology and advanced manufacturing.
- National ceiling: up to $500 million annually in qualifying expenditure renunciations.
- Annual utilization review; authority to raise the next-year ceiling up to $750 million if demand reaches or materially approaches the cap and evidence supports expansion.
- No additional technology investment tax credit during the initial period.
- Independent evaluation before renewal or permanent expansion.

3. Qualifying issuers

Finance should define startup eligibility through objective tests rather than financing-round labels. Appropriate tests could include Canadian residence, company age, revenue/assets, qualifying R&D intensity and meaningful Canadian economic substance. Sector-specific flexibility may be needed for biotechnology, quantum and other fields with long development cycles.

A strict Canadian-control test should not automatically exclude a startup that has already attracted foreign capital but still retains substantial Canadian R&D, employment and decision-making. The objective is to build Canadian capacity, not penalize companies for attracting global investors.

4. Qualifying expenditures and SR&ED

Begin with prescribed Canadian R&D and experimental-development expenditures, drawing on concepts already familiar through SR&ED where useful. Finance may consider narrowly defined prototype, testing and technical-validation costs that are integral to commercialization. Broad sales, marketing or acquisition spending should not qualify merely because it occurs at a startup.

Finance and CRA should establish explicit coordination rules so the same expenditure does not receive unintended overlapping federal support through both FTS-Tech and SR&ED. The precise formula belongs in tax design, not in this submission.

5. Canadian economic substance and anti-abuse

- Qualifying R&D and use of FTS proceeds substantially in Canada.
- Reporting of Canadian employment, payroll, headquarters, R&D footprint and material IP ownership.
- Disclosure of acquisitions, relocations and material changes in control.
- Related-party, passive-asset and artificial-transaction rules.
- Appropriate penalties/corrections where promised qualifying expenditures are not incurred.

6. Administration

Build on CRA's existing FTS architecture wherever practical. Existing FTS administration already uses written agreements, T100/T101 reporting, partnership allocations and rules for expenditures incurred after financing. Technology-specific forms and definitions will be required, but a new grant-selection institution should not be. [16] [17]

Finance and CRA should design the mechanism for managing the national ceiling. A simple first-come-first-served system may favour issuers with the fastest advisers rather than the strongest businesses. Reservation windows, periodic allocations or pro-rata treatment may be preferable. The key principle is that government administers tax eligibility and the cap; government does not select individual portfolio companies.

7. Why $500 million

The $500 million figure is a controlled policy ceiling, not a forecast of demand. It is large enough to generate meaningful evidence across four sectors while limiting the volume of deductions that may be transferred in the initial test. NACO independently estimates a cumulative pre-seed, seed and Series A gap above US$1.6 billion over five years, while Budget 2025 separately committed $750 million to firms facing early growth-stage funding gaps. These figures place a $500 million annual FTS-Tech ceiling within a credible policy scale without implying that the programs are substitutes. [2] [4]

8. PBO costing and Finance methodology

The PBO's $2.765 billion five-year estimate costed a broad, uncapped extension and explicitly identified uncertainties concerning sector activity, transferability of resource-sector experience, issuing-firm taxable positions, investor capacity, other tax credits and behavioural response. [14]

Finance Canada's own FTS methodology should be used for the final fiscal estimate. It measures revenue forgone from transferred deductions net of estimated incremental revenue associated with the zero cost base when shares are sold, and it notes that published cash-flow estimates are an upper bound because they assume issuing corporations would never otherwise use the transferred expenses. [15]

9. Evaluation scorecard

- Primary KPI: additional private capital mobilized per dollar of federal tax expenditure.
- Number and stage of startups financed; average and median FTS-Tech financing size.
- Other private capital raised alongside FTS-Tech and follow-on capital.
- Time required to close financing compared with non-participating peers where data permit.
- Startup survival, commercialization milestones, revenue and exports.
- Canadian R&D employment, total employment and payroll.
- Headquarters, material IP ownership, acquisitions, relocation and changes in control.
- Investor additionality: whether the incentive changed amount, timing or decision to invest.
- Distribution of participation by investment size and geography.

Decision after three years: expand, continue, redesign or end.

Canadian Ownership and Pooled-Vehicle Opportunity

Startup financing remains the primary policy test, but broader Canadian ownership is an important co-benefit. FTS-Tech should first be judged on whether it attracts additional risk capital to Canadian startups. If it does, direct investment and lawful pooled structures can also give more Canadian investors a practical opportunity to participate in the ownership and potential upside of Canadian innovation.

1. Existing FTS already supports direct and pooled participation

CRA states that investors can buy Flow-Through Shares directly from an eligible corporation or indirectly through a partnership, including a limited partnership, that buys FTS from one or more issuers. Renounced expenses are then allocated to partners through the existing reporting system. [16] [17]

2. Diversified flow-through partnerships are an established market structure

The tax-and-distribution concept is not theoretical. Ninepoint's 2026 Flow-Through Limited Partnership was publicly offered with a $2,500 minimum subscription and a diversified resource portfolio; it reached its $85 million maximum in March 2026. [22]

3. Private technology creates a different liquidity problem

Many technology startups are private and highly illiquid. Current NI 81-102 rules generally restrict a mutual fund from purchasing illiquid assets above 10% of NAV and a non-redeemable investment fund above 20%, with higher hard caps after 90 days. A broadly distributed FTS-Tech vehicle invested predominantly in private startups therefore would not fit cleanly inside conventional public investment-fund rules without a different structure or regulatory relief. [23]

The OSC has already been examining new structures that could give retail investors professionally managed access to long-term and illiquid assets while addressing valuation, liquidity and investor protection. That work is relevant, but FTS-Tech should not be delayed while securities regulators develop those frameworks. [24]

4. Recommended two-track approach

- Launch the core FTS-Tech tax mechanism for eligible direct investors and lawful partnerships/pooled vehicles under existing securities law.
- Invite the Canadian Securities Administrators and market participants to examine how diversified vehicles holding private technology investments could responsibly broaden participation.
- Leave securities distribution, suitability, liquidity and investor-protection rules with provincial and territorial regulators.

The federal government should create the tax architecture, not manage investment funds or weaken securities protections.

ANNEX E

What If They Had Built More of It Here?

Economic Scenario and Sensitivity Analysis

Supporting Annex to the 2026 Pre-Budget Submission on Flow-Through Shares for Technology Startups

Purpose of this annex Make the assumptions and arithmetic behind the economic scenario fully visible. This is not a forecast, not a claim that Canada historically lost the amounts shown, and not proof that any individual founder moved because financing was unavailable in Canada. Its purpose is narrower: test whether the downstream economic stakes remain material when the assumptions are explicit and deliberately conservative.

1. The Starting Signal - and the Evidence Chain

A National Post report by Jesse Snyder, Canada's tech industry warns 'entrepreneurs are leaving in droves' for U.S., reported that at least 517 U.S.-based technology firms have Canadian-connected founders and together have raised more than US$400 billion. The article also placed the figures in the broader Canadian founder and brain-drain debate. [E1]

That reporting is useful context, but it is not treated here as proof of why individual founders chose the United States. The article itself notes disagreement over causes. Among the explanations discussed are the much larger U.S. investor pool, business-policy differences and the density of the U.S. technology ecosystem. That is exactly why this annex separates observed facts from inference.

Evidence chain

Layer	What it contributes	What it does not prove
Underlying catalogue	Dominion List / Barn Ventures: 517 U.S.-based companies with a Canadian-connected founder; about US$414B raised. The catalogue is curated, not a census. [E2][E3]	Why any individual founder chose the U.S.
Independent reporting	National Post reports the figures, the 88% Canadian-university education connection and the broader founder-drain debate. [E1]	That financing was the sole or decisive cause.
This annex	A transparent counterfactual model showing the economic footprint under stated assumptions and severe sensitivity tests.	Historical loss, causal attribution, or the fiscal return of FTS-Tech.

2. What the Model Can - and Cannot - Establish

- It can show the order of magnitude of jobs, payroll and GDP associated with different hypothetical shares of company-building activity occurring in Canada.
- It can show how sensitive the results are to assumptions about company size, Canadian retention and employment spillovers.
- It cannot tell us why individual founders chose the United States.
- It cannot establish that FTS-Tech would have kept any particular company in Canada.
- It cannot convert capital raised into GDP, profit or tax revenue. Those are different measures.

3. Original Scenario Assumptions - Made Explicit

The original working paper used a deliberately simple model. The inputs below are modelling assumptions, not observed averages across the 517-company catalogue. Because one assumption - 500 employees per company - is especially contestable, the model is stress-tested later at 250 and 100 employees per company rather than asking the reader to accept the original case.

Input	Original assumption	Interpretation
Number of companies	517	Curated U.S.-based company catalogue with a Canadian-connected founder
Average direct employees/company	500	Modelling assumption, not an observed sample average
Share of activity retained in Canada	50%	Middle scenario between 25% and 75%
Employment multiplier	1.0	One associated job for every direct technology job
Average direct compensation	$99,000	Illustrative technology-sector compensation benchmark
Average associated compensation	$60,000	Lower compensation benchmark for surrounding jobs
Direct GDP per worker	$90,000	Illustrative productivity benchmark
Associated GDP per worker	$70,000	Lower productivity benchmark for surrounding jobs
Tax-to-GDP ratio	34.9%	Illustrative economy-wide tax capacity only; not federal revenue

4. Cross-Check Against Official Canadian ICT Benchmarks

The point of the cross-check is not to claim the 517 companies would look like the average Canadian ICT firm. It is to show which assumptions are conservative, which are contestable and why the sensitivity tests matter.

Model input	Official Canadian benchmark	Implication for this annex
Direct compensation: $99,000	ISED reports average ICT salary of $103,460 in 2024. [E4]	$99,000 is modestly below the official sector average.
Employment multiplier: 1.0	ISED reports each direct ICT job supports an additional 1.1 Canadian jobs. [E4]	The original 1.0 is slightly below the official sector-wide benchmark; stress cases use only 0.5.
Direct GDP/worker: $90,000	Software & Computer Systems: $75.676B GDP / 594,202 workers, about $127,000 per worker. [E4]	$90,000 is materially below that official sub-sector ratio.
Company size: 500 employees	ISED reports only 153 ICT companies with more than 500 employees; only 1.7% have more than 100. [E4]	500 is not defensible as an observed average. It is retained only as the original illustrative case and cut sharply in the stress tests.

5. Results: Original Case, Severe Stress Test and Additional Downside Check

Original 50% scenario

Using 517 companies x 500 employees x 50% Canadian activity produces 129,250 direct Canadian technology jobs. At a 1:1 employment multiplier, it produces an equal number of associated jobs. This is the original scenario, not the recommended headline case.

Output	Original 50% scenario
Direct technology jobs	129,250
Associated jobs	129,250
Total jobs	258,500

Output	Original 50% scenario
Annual payroll	~$20.6B
Annual GDP	~$20.7B
Illustrative economy-wide tax capacity	~$7.2B

Preferred policy illustration - severe sensitivity test

Whole-job counts are rounded to the nearest job. Payroll, GDP and illustrative tax-capacity figures are calculated from the unrounded values before final rounding.

To test whether the strategic point survives much harsher assumptions, three major inputs are cut at the same time: average company size from 500 to 250 employees; Canadian activity from 50% to 25%; and the employment multiplier from 1.0 to 0.5.

Output	Severe stress case
Direct technology jobs	32,313
Associated jobs	16,156
Total jobs	48,469
Annual payroll	$4.17B
Annual GDP	$4.04B
Illustrative economy-wide tax capacity	$1.41B

What the stress test shows Even after simultaneously halving company size, halving the Canadian-retention assumption and halving the employment multiplier, the scenario still implies roughly 48,000 jobs and about $4.0 billion in annual GDP. This is not a forecast. For policy discussion, this annex treats the severe stress case - rather than the original 50% scenario - as the primary illustration because three important assumptions have been reduced at the same time.

Additional downside check

A second downside check reduces average company size to only 100 direct employees while keeping Canadian activity at 25% and the spillover multiplier at 0.5.

Output	Additional downside case
Direct technology jobs	12,925
Associated jobs	6,463
Total jobs	19,388
Annual payroll	$1.67B
Annual GDP	$1.62B
Illustrative economy-wide tax capacity	$0.56B

Interpretation: Even this additional downside case still produces an economically material footprint. It does not validate FTS-Tech or any other policy instrument. It establishes only that the location of successful company-building activity matters enough to warrant serious policy attention.

6. Why This Matters to a Startup-First FTS-Tech Policy

The 517-company evidence is downstream. FTS-Tech is an upstream intervention. The submission does not claim that founders moved because they could not raise in Canada. Individual motives are unknown. The narrower and defensible policy logic is about capital availability and path dependency.

- A technology startup needs risk capital before it can become a scale-up.
- When the first meaningful financing comes from another capital ecosystem, the company also enters that ecosystem of investors, advisers, board members and follow-on capital.
- Later rounds naturally tend to follow relationships that already exist. By the time policymakers worry about where a Series C is being raised, the more consequential financing path may have been established years earlier.
- FTS-Tech therefore targets startup formation, R&D, product proof, commercialization and early market traction - not mature Series C or D financing.

The policy proposition Give more Canadian technology startups a viable Canadian financing option before their capital path is set elsewhere. Government sets the eligibility rules. Canadian investors put up their own private capital, choose which qualifying startups they want to back and bear the investment risk. If those companies grow, those investors can share in the financial upside. No return is guaranteed. The program should be judged by whether it mobilizes additional private startup investment at an acceptable federal tax cost.

7. The Ownership and Compounding Effect

The economic footprint of a successful technology company extends beyond its own payroll. Employees become founders, angel investors, executives and mentors. Suppliers learn to serve global technology businesses. Employee equity and founder gains can become capital for the next startup. A successful company can become a school for entrepreneurs.

FTS-Tech also adds an ownership dimension. Canadians who choose to put their own capital into qualifying Canadian startups can participate in the financial upside if those companies succeed. In that sense, it is the investment-side counterpart to 'Buy Canadian': not a request to invest out of patriotism, and not a guarantee of return, but a market mechanism that can give Canadians a stronger financial reason to own part of the innovation being built here.

This model assigns no dollar value to that ownership benefit, does not assume investment success and does not treat private investor gains as public fiscal return. It is a secondary co-benefit: broader Canadian participation in the ownership of Canadian innovation and more potential for successful returns to recycle into future Canadian companies.

8. Model Limitations and Safeguards Against Over-Claiming

- The 517-company list is a curated catalogue, not a census of all Canadian-connected U.S. technology companies.
- No causal claim is made about why individual founders chose the United States. The National Post reporting itself records multiple competing explanations. [E1]
- Average employees per company is an assumption, not an observed mean across the list. Official Canadian ICT company-size data are one reason the model includes much harsher 250- and 100-employee cases. [E4]
- Retention percentages are counterfactual scenarios, not estimates of what government could have guaranteed.
- Employment multipliers vary by industry, region and methodology. The model therefore shows a baseline and stress cases rather than relying on a single multiplier.
- The 34.9% tax-to-GDP ratio is an OECD economy-wide measure. It must not be read as federal tax revenue or taxes lost. [E5]
- The model does not estimate the fiscal return from FTS-Tech. That must be measured from actual program data and Finance Canada tax-expenditure methodology.

9. What Finance Canada Should Measure Instead of Relying on This Scenario

This scenario establishes why the stakes deserve attention. It should not substitute for program evaluation. If FTS-Tech is launched, the real evidence should come from observed results:

- Additional private startup capital mobilized per dollar of federal tax expenditure.
- Number and stage of qualifying startups financed, especially first meaningful angel, seed and early institutional rounds.
- Investor additionality: whether the tax incentive changed the amount, timing or destination of investment.
- Startup survival, commercialization milestones, revenues and follow-on financing.
- Canadian employment, R&D payroll, headquarters location and material IP ownership.
- Participation by Canadian investors directly and, where permitted, through diversified pooled vehicles; over time, investor concentration and realized outcomes where data are available.

10. Core Formulas

- Potential direct jobs = number of companies x average direct employees per company
- Direct Canadian jobs = potential direct jobs x share of activity retained in Canada
- Associated jobs = direct Canadian jobs x employment multiplier
- Total jobs = direct Canadian jobs + associated jobs
- Direct payroll = direct Canadian jobs x average direct compensation
- Associated payroll = associated jobs x average associated compensation
- Total annual payroll = direct payroll + associated payroll
- Direct GDP = direct Canadian jobs x direct GDP per worker
- Associated GDP = associated jobs x associated GDP per worker
- Total annual GDP = direct GDP + associated GDP
- Illustrative tax capacity = total annual GDP x tax-to-GDP ratio

Source Notes

The source chain is deliberately explicit so reviewers can inspect the underlying data, the independent reporting and the benchmark assumptions. Scenario outputs remain illustrative calculations, not forecasts or historical-loss estimates.

[E1] Jesse Snyder, National Post, Aug. 21, 2026, Canada's tech industry warns 'entrepreneurs are leaving in droves' for U.S.. Reports the 517-company / US$400B+ figures, the 88% Canadian-university connection, the founder-drain debate and competing explanations for the pattern.

[E2] Jesse Rodgers, Barn Ventures, May 29, 2026, The Conveyor: How US Capital Recruits Canadian Founders - and What It Produces. Dominion List analysis: 517 U.S.-based companies, about US$414B raised; list described as curated, not a census.

[E3] The Dominion List - The most influential Canadian founders building companies in America. Underlying catalogue and methodology.

[E4] Innovation, Science and Economic Development Canada, Canadian ICT Sector Profile 2024. Official salary, GDP, employment-multiplier and company-size benchmarks.

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[1] Liberal Party of Canada, Canada Strong (2025), p. 48 - commitment to introduce flow-through shares to the Canadian startup ecosystem in AI, quantum computing, biotech and advanced manufacturing. Source

[2] National Angel Capital Organization (NACO), Seeding Growth (2026) - joint NACO-Startup Genome analysis of early-stage funding gaps. Source

[3] Business Development Bank of Canada (BDC), Canada's Venture Capital Landscape 2026. Source

[4] Budget 2025, Chapter 1 - $1 billion Venture and Growth Capital Catalyst Initiative and $750 million for firms facing early growth-stage funding gaps. Source

[5] Canadian Venture Capital and Private Equity Association (CVCA), H1 2026 Canadian Market Overview. Source

[6] Barn Ventures, The Conveyor / Dominion List analysis - 517 U.S.-based companies with a Canadian-connected founder and about US$414 billion raised (curated list, not a census). Source

[7] Y Combinator, Adding Canada Back to Our List of Accepted Countries of Incorporation (February 5, 2026). Source

[8] Department of Finance Canada, Report on Federal Tax Expenditures 2026, Part 5 - history and objective of Flow-Through Share deductions. Source

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[11] HM Revenue & Customs, Enterprise Investment Scheme and Seed Enterprise Investment Scheme: 2026 (Accredited Official Statistics). Source

[12] UK Government/HMRC, EIS and VCT investment-limit changes effective April 6, 2026. Source

[13] UK Government, extension of EIS and VCT schemes to April 2035. Source

[14] Office of the Parliamentary Budget Officer, Expanding the flow-through share program - Election Proposal Costing (April 19, 2025). Source

[15] Department of Finance Canada, Report on Federal Tax Expenditures 2026, Part 1 - FTS cash-flow costing methodology and upper-bound caveat. Source

[16] Canada Revenue Agency, Types of investments - direct FTS and partnership/limited-partnership participation. Source

[17] Canada Revenue Agency, Reporting your investments - zero adjusted cost base and partnership reporting. Source

[18] Innovation, Science and Economic Development Canada, Canadian ICT Sector Profile 2024. Source

[19] HM Revenue & Customs, Venture Capital Scheme (EIS/VCT) Evaluation 2022 - Executive Summary. Source

[20] HM Revenue & Customs, Seed Enterprise Investment Scheme Evaluation 2022 - Executive Summary. Source

[21] Beauhurst / Enterprise Investment Scheme Association, EIS 30th Anniversary research (industry-sponsored supplementary evidence). Source

[22] Ninepoint Partners, Ninepoint 2026 Flow-Through Limited Partnership - sold-out $85 million maximum. Source

[23] Ontario Securities Commission, National Instrument 81-102 Investment Funds - restrictions concerning illiquid assets. Source

[24] Ontario Securities Commission, Staff Notice 81-738 - retail access to long-term assets through investment fund structures. Source

[25] Jesse Snyder, National Post, Canada's tech industry warns 'entrepreneurs are leaving in droves' for U.S. (August 21, 2026) - independent reporting on the 517-company / US$400B+ figures and the broader Canadian founder/brain-drain debate. Source