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# Scientific Research and Experimental Development (SR&ED) Claims in the Wired World

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Presented by

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# Introduction

If you have ever made an SR&ED claim, you know this is a time consuming, resource intensive and disruptive activity.

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# SR&ED

An investment tax credit (ITC) program designed to encourage Canadian businesses of all sizes to conduct research and development (R&D) primarily in Canada

Federal SR&ED provides over \$4 billion  
Alberta SR&ED provides over \$60 million

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# Who qualifies for SR&ED?

- Canadian-controlled private corporations (CCPCs)
- Canadian public corporations (PCs)
- Proprietorship, partnership and trusts (Others)

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# Federal SR&ED

## ■ CCPCs

- ❑ annual refundable ITC
- ❑ 35% on the first \$3 million of SR&ED expenditures
- ❑ 20% on excess amount

## ■ PCs

- ❑ Annual non-refundable ITC
- ❑ 20% of SR&ED expenditures
- ❑ used to reduce taxes payable

## ■ Others

- ❑ annual partially refundable ITC
- ❑ 20% of SR&ED expenditures
- ❑ used to reduce taxes payable

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# Alberta SR&ED

- Administered by CRA through TRA
- Must file a Federal SR&ED claim
- Annual fully refundable investment tax credit
- Available to all businesses
- 10% of eligible expenditures
- Maximum eligible expenditures \$4 million
- Full refund up to \$400,000

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# What is SR&ED?

- **Experimental Development**
  - Includes the development of new or improvement of existing materials, devices or products
- **Applied Research**
  - Advances scientific knowledge with a specific practical application in view
- **Basic Research**
  - Advances scientific knowledge without a specific practical application in view

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# Other SR&ED work

Includes work that is directly in support of experimental development, applied or basic research

- ❑ Engineering
- ❑ Design
- ❑ Operations research
- ❑ Mathematical analysis
- ❑ Computer programming
- ❑ Data collection
- ❑ Testing
- ❑ Psychological research

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# What is NOT SR&ED

- Market research or sales
- Quality control or routine testing
- Research in social sciences or humanities
- Prospecting, exploring or drilling
- Commercial production
- Style changes
- Routine data collection

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# Experimental Development

- What technological advancements were you trying to achieve? (350 words)
  - Identify objectives
  - Current state of the art technology
  - List advancements
- What technological obstacles did you have to overcome to achieve those advancements? (350 words)
  - List obstacles/challenges
- What work did you perform in the tax year to overcome those technological obstacles? (700 words)

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# Basic or applied research

- Describe the scientific knowledge that you were trying to advance (350 words)
- Summarize the work performed in the tax year, and explain how that work contributed to the advancement of scientific knowledge (700 words)

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# Supporting evidence

- Contemporaneous documents
  - generated as SR&ED is being carried out
- Other evidence
  - must address part 2 of Form T661
- Claim will be disallowed without supporting evidence

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# Contemporaneous documents

Best supporting evidence. . .

- Substantiates SR&ED work done
- Proves allowable expenditures were incurred
- Dated, signed and specific to work performed

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# Other documentation

Prepared subsequent to SR&ED work. . .

- Made up stuff based on best recollections
- Incomplete
- Time consuming

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# Technical documentation

- Project planning documents
- Time sheets showing resource allocation
- Design of experiments
- Design documents
- Design, system architecture, source code
- Records of trial runs
- Project progress reports
- Minutes of project meetings
- Test protocols, test data, test results
- Analysis of test results, conclusions
- Final project report
- Photos and videos
- Prototypes
- Scrap and scrap records
- Contracts

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# Financial documentation

- Cost analysis and accounting records for each project:
  - Salaries and wages
  - Materials transformed/consumed
  - Contract costs
  - Lease cost of equipment
  - Overhead costs
  - Third party payments
  - Capital expenditures

Continued. . .

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# Financial documentation

- Time sheets, T4s, employment agreements, allocation calculations
- Contractor contracts, invoices, statement of work
- Lease agreements and invoices
- Logbooks to support SR&ED use of equipment
- Overhead and/or proxy amount calculations
- Invoices, documents to support third party payments
- Invoices to support capital expenditures for NEW equipment
- Proof of payment

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# Resources

- Section 248(1) income tax act
- RC 4467, RC 4472
- Interpretation bulletins, information circulars
- CRA example forms
- T4088 guide for form T661
- SR&ED <http://www.cra-arc.gc.ca/sred/>
- TRA Guide to AT1 S9
- **g9 Consulting** [www.g9Consulting.com](http://www.g9Consulting.com)

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# Contact Us

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