
Scientific Research and Experimental Development (SR&ED)

Presented by

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Are you leaving money on the table?

Every year, the SR&ED program provides billions of dollars to companies performing Research and Development. The rules are complex and confusing which means that many companies do not claim incentives that they are entitled to!

Overview

- What is SR&ED?
- Who qualifies for SR&ED?
- What work qualifies for SR&ED?
- When is the SR&ED claim due?
- When do you get cash back?
- How much does it cost to file a claim?

What is SR&ED?

A federal investment tax credit (ITC) program to encourage Canadian businesses of all sizes to conduct research and development (R&D) in Canada that will lead to new, improved, or technologically advanced products or processes.

Who qualifies for SR&ED?

- Canadian-controlled private corporations (CCPCs) earn a refundable ITC:
 - 35% on the first \$2 million of qualified expenditures;
 - 20% on excess amount.
- Canadian public corporations, earn a non-refundable ITC:
 - 20% of qualified expenditures
 - may be used to reduce taxes payable
- Proprietorship, partnership or certain trusts earn a partially refundable ITC:
 - non-refundable ITC may be used to reduce taxes payable

What work qualifies for SR&ED?

- To qualify for the SR&ED program, your work must meet the following criteria:
 - advance the understanding of science or technology
 - address scientific or technological uncertainty
 - incorporate a documented systematic investigation by qualified personnel

SR&ED qualifying questions?

If you answer “YES” to any of these questions, your work may qualify for SR&ED:

- Did you make technological advancement to create devices, products, or processes, or improve existing ones?
- Did you perform research to advance scientific knowledge?
- Did you have a specific practical reason for conducting research?
- Did your research teach you something new that is relevant to your product or company?
- Did you perform support work in engineering, design, operations research, mathematical analysis, computer programming and data collection?

What work does not qualify?

- Commercialization of your technological product
- Sales and marketing activities
- Social science and humanities research;
- Style changes;
- Quality control or routine testing of materials, devices, products, or processes;
- Routine data collection;
- Prospecting, exploring, or drilling for or producing minerals, petroleum, or natural gas; and
- Development based solely on design or routine engineering practice.

When is the SR&ED claim due?

- The SR&ED claim is due 18 months after your fiscal year end. If your fiscal year end is December 31, 2007, your claim is due before June 30, 2009.
- You may be eligible to file 2 returns immediately!
- Typical claims are filed at tax time each year.

What must be submitted?

- Claim must be made for each SR&ED project
- Included in each claim:
 - Technical report
 - Form T661
 - T2 Schedule 31 – for corporations
 - Form T2038(IND) – for individuals
 - Financial cost report for eligible expenditures

Technical Report

- Technological or scientific objectives
 - Scientific development or research
 - Discipline involved
 - What were you trying to achieve
- Technology or knowledge base level
 - What was known before you started
 - What knowledge were you seeking
 - Technological limitations you attempted to overcome
 - Why can't you use what is already available?

Technical Report continued. . .

- Scientific or technical advancement
 - Advancements in technology
 - Problems and challenges
 - Why does this represent advancement?
 - Commonly available
 - Uncertainties and challenges
- Detailed description of work done
 - Analyses performed
 - Experiments conducted
- Supporting documentation
 - Technical records or documents – records of trials, test results, meeting minutes, timesheets, new products.

Form T661 and T2 Schedule 31

- Tax forms
- Section 248(1) income tax act
- Interpretation bulletins
- T4088 guide for form T661
- CRA website section on SR&ED

Financial Cost report

- Salaries and wages
- Materials consumed
- Materials transformed
- SR&ED contracts – Canadian only!
- Lease cost of equipment
- Overhead
- Capital expenditures

When do you get cash back?

- Canadian Controlled Private Corporations (CCPC) will receive a cash refund 3 months after filing the corporate tax return with the SR&ED claim.
- If the SR&ED claim is filed separately at a later date, and before the due date, then a cash refund will be received 6 months after filing.

Case study

- Objective: provide users with an automated software tool to handle complex engineering formulas and data to analyze Safety Integrity Levels in Hazardous operations
- Base level: complex engineering calculations done manually and Excel
- Advancement: complete tool to manage standards for a project from design to implementation
- Company performed extensive R&D

Case Study continued. . .

- Project qualified for SR&ED
- New standards being released; new R&D
- Improved process for tracking eligible expenditures
- Implemented time tracking system for SR&ED projects
- Switched principles to partial salary for SR&ED projects to maximize wages eligible

Case Study – Financial Results

- 2004
 - Eligible expenditures = \$100,000
 - ITC = Refund = \$35,000
- 2005
 - Eligible expenditures = \$140,000
 - ITC received = \$49,000
 - Refund = \$18,000; Non-refundable = \$31,000
- 2006
 - Eligible expenditures = \$200,000
 - ITC received = \$70,000
 - Refund = \$58,000; Non-refundable = \$12,000
- 2007
 - Eligible expenditures = \$260,000
 - ITC = Refund = \$91,000

Other examples

- Manufacturing of new equipment for oil and gas industry
- Interfaces to web technologies, databases with critical unknowns
- Software solutions that automate manual process and improve scientific results

What can you expect?

■ First year:

- ❑ Establish process to manage SR&ED projects
- ❑ Prepare and submit claim
- ❑ CRA technical review
- ❑ CRA financial review
- ❑ Meeting with CRA to discuss your claim
- ❑ Approval of claim
- ❑ Refund 6 months after submission

■ Second year:

- ❑ Prepare and submit claim
- ❑ Approval of claim
- ❑ Refund 3 months after submission

Assistance for SR&ED claims?

- Financial consulting organizations
 - Professional accountants and engineers
- Accounting CA firms
 - Professional accountants
 - Technical expertise in engineering and technology?
- Former SR&ED CRA reviewers
 - Technicians
 - Technical expertise in corporate tax, engineering and technology?

How much does it cost to file?

- Based on services required:
 - submit the claim on your behalf
 - work jointly to prepare technical and cost report
- Fees:
 - Contingency ~ 30%
 - Hourly rate basis ~ 15%

About us

- We are a team of dedicated professionals (Chartered Accountants and Engineers) that are fluent in engineering, tax and administrative practices of the Canada Revenue Agency (CRA). We know the software development and oil and gas industry for tax and scientific principles and can help you file your claim and defend it during the review/audit process.

Contact Us

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