
Scientific Research and Experimental Development (SR&ED)

Presented by

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Are you leaving R&D money on the table?

Every year, the SR&ED program provides billions of dollars to companies performing Research and Development.

Maximize your *annual tax free* SR&ED claim by following 10 simple steps.

Overview

- The SR&ED program
- Who qualifies for SR&ED?
- The Federal Program
- The *new* Alberta program
- What must be submitted?
- 10 Tips to maximize your SR&ED refund

The SR&ED program

An 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)
- Canadian public corporations (PC's)
- Proprietorship, partnership, certain trusts and individuals (Others)

The Federal program

- CCPC's
 - annual refundable ITC
 - 35% on the first \$3 million* of qualified expenditures
 - 20% on excess amount
- Canadian public corporations
 - annual non-refundable ITC
 - 20% of qualified expenditures
 - used to reduce taxes payable
- Others
 - annual partially refundable ITC
 - 20% of qualified expenditures
 - used to reduce taxes payable

* \$2 million for tax years ending before Feb. 26, 2008

The *new* Alberta program

- Annual refundable ITC
- 10% of annual eligible expenditures
- maximum eligible expenditures \$4 million
- Provides a full refund of up to \$400,000
- Effective January 1, 2009
- Tax free
- Estimated initial value of \$60 million

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

10 Tips to maximize your SR&ED refund

- Here are 10 tips to ensure that you maximize the annual **TAX FREE** SR&ED refund that you are entitled to.

Tip #1 - File on time

- SR&ED claims filed with the corporate tax return within 6 months after year end receive refunds within 3 months – top priority
- SR&ED claims filed after the 6 month deadline (but before the 18 month limit) are treated as “client requested adjustments” and refunds are received within 6 to 8 months after filing – lowest priority

Tip # 2 – Plan ahead

- Evaluate the project and ensure it meets SR&ED criteria:
 - advance the understanding of science or technology
 - address scientific or technological uncertainty
 - incorporate a documented systematic investigation by qualified personnel

Tip #3 – Budget time for SR&ED

- Allocate time for developers, engineers, project managers, accountants and admin personnel to work on SR&ED documentation and planning
- Ensure everyone is aware of activities that are covered by SR&ED including:
 - Experimental development
 - Applied research
 - Basic research
 - Support work

Tip #4 – Keep all documents

- Keep information related to each new version/prototype of your project
- Set up a SR&ED file to keep all this information for later use in describing work done in the taxation year

Tip # 5 – Develop a project plan

- Document the advances you expect to make with your next project
- Provide details on how you plan on approaching development
- Options you will explore during development and the unknown factors
- Make SR&ED an agenda item at the project meetings
- Add documentation to SR&ED file

Tip #6 – Document the current state of the technology

- Include all references for research to support the current state of the art technology available at the time you started your project
- Documentation from online research, industry associations, trade magazines and industry experts are all relevant
- Put all documentation in the SR&ED file

Tip #7 – Use time tracking systems

- Required by CRA
- All personnel (employees and contractors) involved in the project must track their time:
 - Programmers
 - Engineers
 - Project managers
 - Quality assurance
 - Accounting
 - Admin personnel

Tip # 8 – Track the SR&ED project

- Note the dates the project started
- When problems were encountered
- How and when problems were resolved
- Dates the first version or prototype was developed
- Final outcome of the project
 - Success
 - Failure
 - Needs more work

Tip # 9 – Track expenditures

- Set up general ledger accounts to track expenditures that are eligible for SR&ED
 - Salaries and wages – supported by T4
 - Materials consumed and transformed
 - SR&ED contracts – Canadian only*
 - Lease cost of equipment – computers, monitors, machinery
 - Overhead – EI, CPP, some office expenses
 - Capital expenditures – computers, machinery, equipment
- Ensure you have contracts for all employees and contractors
- Keep copies of invoices in a separate SR&ED file

* Latest budget changes allows 10% of contract work done outside of Canada

Tip #10 – Keep in Touch

- Meet with your SR&ED consultant on a regular basis to maintain info flow
- Receive updates on the SR&ED programs
- Advise of any of the following:
 - Changes to the project plan
 - Changes to planned expenditures
 - Ongoing and new development issues
 - Changes to the accounting system or time tracking system

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 process.

Contact Us

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