

Developing or improving products or processes? See how government incentives can help offset your development costs.

“SR&ED...can help companies who conduct their development work in Canada recoup substantial portions of their R&D expenditures, and bring direct benefits to their bottom line”

Encouraging innovation is one of the most critical activities for any industrialized nation. Since 1985, Canada has offered incentives to encourage Canadian businesses of all sizes and in all sectors to conduct research and development that will lead to new or improved products, processes, or materials. The largest of such programs is known as SR&ED (Scientific Research & Experimental Development). This Federal program, when combined with various provincial incentives, can help companies who conduct their development work in Canada recoup substantial portions of their R&D expenditures, and bring direct benefits to their bottom line. Many companies, however, overlook this source of revenue because they don't think they qualify, or due to a perceived lack of time, resources, or expertise to properly identify eligibility and manage the claims.

The following article answers some common questions regarding the SR&ED program, and we think you'll quickly see that qualifying for a claim and putting your company on a path for dollar recovery may be more straightforward than you think.



How can the program help us?

The program gives claimants cash refunds and/or tax credits for their expenditures on eligible research and development work done in Canada. What that translates into is enabling you to hire more or better staff, conduct more development work, expedite your projects, or just simply improve your profitability. No matter how you look at it, the SR&ED program has the capability to be a regular on-going source of financing for you.

What are the criteria for eligibility?

To be eligible, a company must have performed qualifying research and development in the development or improvement of a product or process. In addition, there must have been qualifying dollars spent for the project(s), unlike in grant programs which provide up-front funding. You may be eligible for a refund if:

- you tried to overcome one or more technological problems;
- you had to conduct trials, analyses, or experiments to solve those problems;
- those experiments were conducted by qualified personnel with relevant experience in science, technology, or engineering;
- you required experience or technologies not commonly available to your company to solve those problems (i.e. there was some degree of uncertainty in whether you could solve the problems); and
- your work resulted in a technological advancement. The advancement may be new to the world, or just new to your company.



“The SR&ED program focuses on stimulating technological advancement regardless of what type of business you are in”

We aren't a high-tech company. Do we still qualify?

The SR&ED program is not exclusive to companies with laboratories who conduct high level research. As long as your projects meet the criteria, you can qualify. In the simplest terms, if your company identified a technical problem, had some technical uncertainty as to how to resolve the problem, and you applied an iterative, experimental approach to solving the problem, there is a good chance you will be eligible to file a claim. The SR&ED program focuses on stimulating technological advancement regardless of what type business you are in, whether it be in food production, industrial manufacturing, pharmaceuticals, software, or a myriad of other market segments.

Our project failed. Can we still file a claim?

Absolutely, you can still qualify. Your failure demonstrates that there was some technical risk and uncertainty to your claim. These kinds of setbacks are common on the path to advancement.

What kind of expenditures qualify?

As long as the activities were conducted in Canada, qualifying expenditures may include wages,

materials consumed in performing SR&ED, contractors (eg: such as those employed for design or test), equipment purchased for SR&ED, some overheads, and third party payments to organizations such as universities and colleges.

Recent announcements suggest that, if approved, the proposed 2008 Federal budget would allow up to 10% of wages claimed in Canada to be utilized for wages for SR&ED activities conducted outside of Canada.

How much money could we get back?

The maximum refund depends primarily on your type of company, province of operation, and the type of expenditures claimed. The simplified table in Figure 1 shows the combined Ontario and Federal rates for several types of organizations.

As you can see, Canadian Controlled Private Corporations (CCPCs) are eligible for the highest rates of refund, especially on labour dollars.

To use an example, consider a CCPC who spends \$100K on labour to conduct SR&ED. This organization would be eligible to receive a maximum of \$68.5K in Ontario. In other provinces like Quebec and New Brunswick, the rates can be even higher.

Irrespective of the type of organization, any out-

EXPENDITURE	MAXIMUM AMOUNT RECOVERABLE		
	CANADIAN CONTROLLED PRIVATE CORPORATIONS	CANADIAN PUBLIC COMPANIES	CANADIAN PROPRIETORSHIPS, PARTNERSHIPS
LABOUR QUALIFIED DOLLARS	68.5%	33.0%	33.0%
MATERIAL QUALIFIED DOLLARS	41.5%	20.0%	20.0%
SUB-CONTRACT QUALIFIED DOLLARS	41.5%	20.0%	20.0%

Figure 1: Combined Federal and Ontario recovery rates (2007) for key expenditures

standing taxes are automatically paid first. In the case of CCPCs, any remaining refund is payable to you via a cheque. In this example, if the CCPC had no taxable income (and hence no taxes to pay), they would receive a cash refund for the full amount.

We're a public company and are not profitable. Should we still file a claim?

It's best to discuss with your accountant. However, any unused investment tax credits can be carried back 3 years, or forward 20 years, regardless of whether you are a CCPC, public company, or sole proprietor. For public companies who aren't profitable during the claim period, this means that credits can be safely stored on the balance sheet for redemption at a future date when the company resumes profitability.

How long does it take to obtain a credit or refund?

If you are a CCPC and if your SR&ED claim is filed with your taxes, you can generally expect to receive a refund within 120 days of filing the claim. If you file what is termed an amendment (i.e. you submit a claim after having filed your taxes), you can generally expect the process to take 240 days. Clearly, it's more advantageous to file with your taxes.

You have a maximum of 18 months after the end of your fiscal year to file your SR&ED claim for that year. That means if you haven't taken advantage of the program before, depending on your fiscal year end, you may be eligible to file TWO claims simultaneously (one for the current fiscal year and one for the previous). That can quickly add up to a significant refund!

What kind of documentation is necessary to file a claim?

The government will want to ensure you have some kind of documentation to substantiate your claim. This information could include project records, such as notebooks, test results, progress reports, drawings, schematics, photographs, or even emails. Dated documents are best.

For labour expenditures, the government expects some kind of tracking mechanism describing the hours spent by person by project. For first time

claimants, and given the program is backward-looking in time, the government recognizes you may not have all of that information readily prepared, and hence allows some estimation. For subsequent claims, however, a more rigorous documentation system is needed.

If you are claiming materials, purchase invoices or scrap certificates are necessary. For subcontractors, invoices and a signed Statement of Work transferring the right to claim SR&ED activities to you is critical.

What happens after we submit a claim?

At the Taxation Centre, your claim is first checked to ensure all necessary documentation is present, and that you have filed the claim within the 18 month deadline. There is a chance your claim may undergo a technical or financial review. Here, a Canada Revenue Agency Research & Technology Advisor evaluates the claimed activities to determine if they meet the eligibility criteria, and a Financial Reviewer ensures that the expenditures submitted are valid. If no reviews are required, your refund or credit is processed.

As you can see, the SR&ED program provides strong incentives to companies willing to undertake efforts to achieve technological or scientific advancement. Participation not only helps to reduce the financial impact of development costs, but also attracts more companies to endeavour for advancement. In turn, this generates significant benefit for the overall growth of the Canadian economy, which was the original intent of the program. If you think your organization may be eligible, don't hesitate to look for ways to take advantage of this outstanding government program today.

Want more information?

For more information on the SR&ED program, visit the CRA web site at www.cra.gc.ca/sred

About the author

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