

The SR&ED Program: A Well-Kept Secret Worth Investigating.

Many individuals and companies are not aware of the extent of the tax incentives available to companies carrying out research and development in Canada. Sadly, many of those who are aware of the credits available believe that it's simply too difficult to access this fund, while others unwittingly become misled by common myths about the program. (Timesheets, anyone?) The following provides an overview of ways to access the value offered by this program with minimal headaches or distractions.

What is the SR&ED program?

SR&ED stands for Scientific Research and Experimental Development and is an Investment Tax Credit (ITC) scheme which aims to encourage Canadian science and technology businesses of all sizes and in all sectors to conduct research and development (R&D).

What assistance is available?

Federal and provincial assistance are combined as part of an incentive strategy to maximize the return. When combined, the result can be blended amounts of \$0.69 ITC per eligible Ontario salaries employee dollar—in Québec, it's more than \$0.80.

Federally, the maximum ITC depends on the company's legal status and amount of qualified expenditures for SR&ED carried out in Canada.

- Canadian-controlled private corporation (CCPC): the ITC is 35% of the first \$3 million in qualified expenditures, and 20% on any excess amount assuming taxable income of previous year is under \$400K.

- Other Canadian corporations, proprietorships, partnerships, and trusts: the ITC is 20% of all qualified expenditures.

Provincially, it depends where the R&D expenditure occurred:

- The Ontario Innovation Tax Credit (OITC) is a 10% refundable tax credit on SR&ED carried on in Ontario;

- In Québec, R&D tax credits offer a particularly generous 37.5%; and

- Many other provinces offer programs, from BC (10%) to NB (15%).

Do you qualify?

In summary, to qualify for a SR&ED-related ITC:

- The claimant must operate a business in Canada in the reporting period, although individual claims are possible;

- The R&D work being claimed as SR&ED must be related to the claimant's business;

- Expenditures, such as salary/wages, subcontracts, capital items, and much more, must be incurred and at least attributable to the R&D activities being claimed;

- SR&ED must primarily be carried out in Canada directly by the claimant or on its behalf. Certain limited expenditures for SR&ED outside Canada are now permitted; and

- Technical advances demonstrable as incremental and re-applicable knowledge, patents, IRAP and others are indicators of likely eligibility.

How do you claim?

Making a SR&ED claim consists of preparing technical project descriptions and associated financial schedules, and filing these as part of an appropriately modified income result with the relevant tax authorities.

When do you claim?

The complete claim should be filed as soon as reasonably possible after the year end in which the expenditure was incurred, to get access to the credits and refunds. However they must be filed at the latest on the day that is 12 months after the filing due date of the return of income for the reporting period i.e. 18 months after year end.

What if the taxes have already been filed?

Not a problem! It's possible to request a *taxpayer requested adjustment* in order to go back and obtain these credits. A taxpayer requested adjustment is a voluntary re-filing of your taxes, although this needs to be filed within the same reporting deadline as described above.

If a SR&ED claim was not made - or certain activities were not included - and you are within the specified time period noted above, it may make sense to file a taxpayer requested adjustment and recoup the associated credit/refund.

What calculation method should I be using for my claim?

Since the onus is on the taxpayer to provide supporting evidence for a claim, there are situations when gathering up all the documentation might prove particularly onerous. There are therefore two methods that can be used to calculate the amount of SR&ED eligible expenditure:

- Traditional method - all expenditures attributable to SR&ED activities are considered. Typically (but not always!) used in manufacturing and non-labour intensive situations, this method offers particular consideration to overhead expenditure—more claim processing work can be required; and

- Proxy method - only directly attributable costs are identified, labour having to be directly engaged in SR&ED. Rather than identifying the overhead expenditure, an additional amount (appx. 65% of the total directly engaged salary amount) is considered in lieu. This method is designed to be simpler and is typically used in labour-intensive situations.

Logan Katz would also like to thank Simon Berry of PGPM Macalis for providing us the material for this May Newsletter Edition. For further information on this topic you may contact Simon at sberry@pgpm-macalis.com.

Who needs to be involved?

Preparing a SR&ED claim requires collaboration between technical and financial staff, usually with one staff member acting as the SR&ED project lead. The technical team determines the eligible SR&ED activities, identifies the time spent, and prepares the required technical content: the financial/accounting personnel obtain the expenditure and other information necessary to complete the claim.

Depending on the size and nature of the research, the information can be challenging to manage and prepare effectively. Consequently, a team of experienced specialists should be considered. These individuals specialize in SR&ED claim preparation and are able to address the unique and specific needs of each claim. Your service providers should demonstrate expertise in three key areas:

Technology: Technologists with experience in the relevant science domain, an understanding between R&D and commercialization, and an ability to effectively communicate this at particular levels.

Financial: Staff specifically experienced in preparing the financial portion of SR&ED claims, combining these as part of an incentive strategy and integrating these into both income returns.

Audit Management: Actively practicing counsel experienced with such incentive and compliance programs, who ensure the claim is positioned in a manner conducive to minimizing process delays (e.g. incurred during audits) with maximizing entitlements.

There are many different fee structures available from claim preparers, ranging from a percentage based on the return, to set rates (e.g. per project) and hourly rates. A good claim preparer will give you several options to consider, allowing you to determine which will best suit your needs.

This 'n That at Logan Katz

The winners of our 2008 Personal Tax Draw are.....

Don Leblanc—\$50.00 gift certificate from Subway Sandwiches

Lawrence Mendell—\$100.00 gift certificate from Bija Bijoux

Tina Hendelman—\$250.00 gift certificate from Best Buy

Norman McDevitt—\$750.00 gift certificate from Rona

CONGRATULATIONS TO ALL!

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We are also looking for new topics and speakers for our 2009-2010 Breakfast Seminar Series, if you have a suggestion please feel free to contact Michelle Gibbons at mgibbons@logankatz.com or by phone at 613-228-8282 ext. 0.