



Converting your innovation into cash



**Product Development &
Management Association
November 28, 2008**

*Danny Ladouceur, C.A.
416-485-0005
danny@rndone.ca*

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WHAT IS SR&ED?

- **SR&ED = Scientific Research & Experimental Development**
- The Canadian government has taken a leadership role by providing a tax incentive program that is **one of the most advantageous systems in the industrialized world** for promoting business investment in R&D with its SR&ED tax incentive program
- SR&ED as defined in Ss. 248(1) of the Income Tax Act:
*Systematic investigation or search
in a field of science or technology
by means of experiment or analysis*



FACTS



- More than **20,000** Canadian businesses are now provided with over **\$5 Billion** in tax incentives



- The program encourages businesses that develop **new technology**, improves its **processes**, performs **research** activities, find new applications or improvements for **existing technology**, and makes **technological advancements** in products and processes



- The activities **do not need to be revolutionary** to qualify, and they do not necessarily need to succeed
- The government estimates that **50% of eligible incentives are not claimed**

FACTS...continued

- The Federal government provides a **refundable tax credit of 35%** (20% if you are a large, foreign controlled or public company), and most provinces also provide **an additional 10% incentive**
- Salaries, contractor costs, materials, lease & purchase of equipment, overhead associated with the performance of research & development activities are eligible costs
- You can **recover up to 68%** of your eligible salaries, and **45%** of your contractor costs and materials consumed
- Must claim **within 18 months** after your fiscal year
- Revenue Canada will process your claim **within 120 days**



ARE YOU ELIGIBLE?

Must meet three eligibility criteria:

1. Scientific or technological **Advancement**
2. Scientific or technological **Uncertainty**
3. Scientific or Technical **Content**



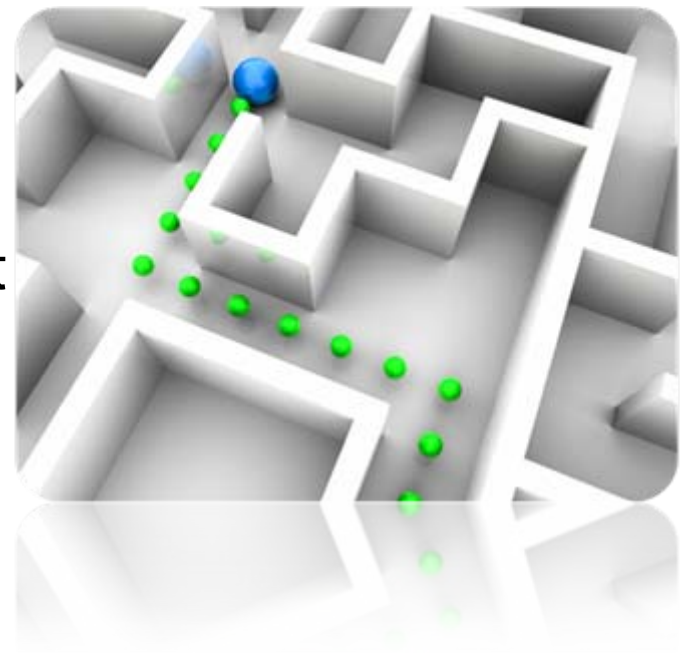
ADVANCEMENT

- The work must achieve an advancement in the general understanding (of the field)
- Information on how to achieve it not available in the public domain
- Success or failure is not a consideration



UNCERTAINTY

- Includes only uncertainties related to **technological** considerations; Not Economic or viability uncertainty
- Uncertainty as to whether or not technological objective will be achieved, solution found, advancement made;
- How to achieve or the path to take is not known, based on existing knowledge and experience; and,



CONTENT

- The testing of hypotheses specifically aimed at removing or eliminating a technological uncertainty
- The work must be a systematic investigation, performed by qualified personnel
- Documentation



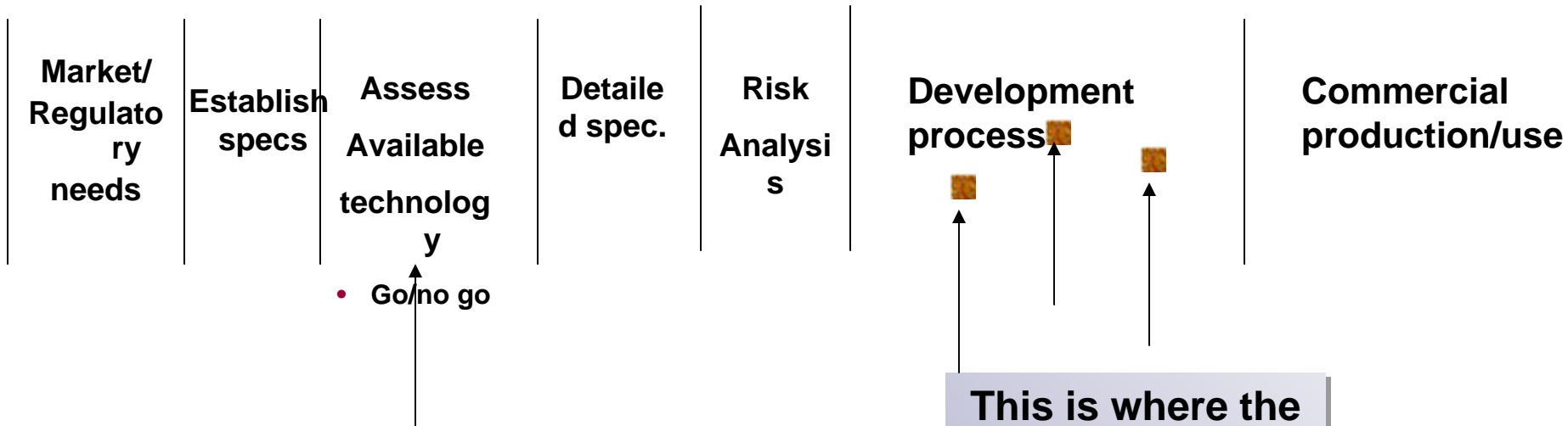
ARE YOU ELIGIBLE?

- Does not have to be revolutionary
- No need to be the first to develop it
- You do not even have to succeed – failures confirm the technical uncertainty criteria



Typical R&D Activity Stream (The enterprise project)

Project Timeline

If no go because of technological considerations, may have to do SR&ED to fill the gap.
(This is rarely the case)

This is where the SR&ED usually occurs, a problem surfaces, and the course of action is not intuitively apparent

ELIGIBLE ACTIVITIES



- Developed a **new product** or new innovative **features** to an existing product;
- Changed a **process** or a **product** when faced with a technological challenge;
- Developed **in-house computer programs** or software to meet an industry specific need;
- Designed and tested new products, prototypes, methods and processes
- Employ **highly trained technical staff** that perform research, make advancements in science & technology, or simply are tasked to finding solutions to your products, processes and challenges you face;
- Made changes to your **processes** or your **equipment** to increase productivity or product quality your manufacturing plant
- Developed a **new application** for an **existing** technology

**If you performed any of the above activities,
you more than likely qualify**

ELIGIBLE ACTIVITIES...EXAMPLES



Developments in...

- New type of florescent lighting system
- Multi-layer router for a wood kitchen door manufacturing
- Website screen scrapping application
- Recycling process for solid waste
- New type of curtain rod
- Manufacturing steel roofing for residential market
- Flight path simulation system to minimize fuel consumption
- New line of fiberglass windows and improving window hardware and locking mechanisms
- New meat and food products
- Modification of Printing presses

HOW MUCH?

- No limit; but the % recovery decreases after \$2,000,000 in expenditures
- Salaries – percentages of their time spent on SR&ED projects
 1. Design
 2. Proof of concept development
 3. Building prototypes
 4. Experimentation & Development
 5. Project management
 6. Testing
 7. Analysis of test results



HOW MUCH?

- Contractor costs
- Materials consumed during the experimentation
- Lease equipment
- Proxy or Direct Overhead costs
- Assets
 1. Purchased new
 2. Intent to be used in SR&ED for useful life
 3. Used ASA; +90% in R&D



HOW MUCH?

	A	B	C
	Salaries	Mix	Contractors
Salaries	\$ 500,000.00	\$ 400,000.00	\$ -
Proxy (65% of salaries)	\$ 325,000.00	\$ 260,000.00	\$ -
	\$ 825,000.00	\$ 660,000.00	\$ -
Contractors	\$ -	\$ 50,000.00	\$ 500,000.00
Materials consumed	\$ -	\$ 35,000.00	\$ -
Lease of equipment	\$ -	\$ 15,000.00	\$ -
SR & ED Eligible Expenditures	\$ 825,000.00	\$ 760,000.00	\$ 500,000.00
Provincial OITC	\$ 82,500	\$ 76,000	\$ 50,000
Sub-total	\$ 742,500	\$ 684,000	\$ 450,000
Federal SR&ED	\$ 259,875	\$ 239,400	\$ 157,500
Combined Incentives	\$ 342,375	\$ 315,400	\$ 207,500
Percentage of expenditures	68%	63%	42%



CHANGES TO PROGRAM

- The declared objective for these changes is to simplify the filing requirements for all claimants
- Elimination of the free-form technical report
- The new T661 form will now include the required technical information.
- A limited number of words will be allowed to present all relevant information with respect to the scientific and technological aspects of the SR&ED projects.
- Each project now has to be reported separately. Previously, technical information was only required for the top



CHANGES TO PROGRAM



- Costing for each project will now have to be reported
- Listing of the 3 key employees and their qualifications is now required.
- Additional disclosure is required around the type and nature of the SR&ED activities performed, the preparer's name, and documentation available to support the claim.
- New terms has been introduced to the already well understood and accepted terminology by CRA, the industry and the tax

Consequences

1. Easier for small businesses; more structured application
2. Harder to describe technological advancements in a succinct manner
3. A lot more disclosure, particularly of Costing for each project
4. More onerous process for large businesses that now have to report all projects, and complete a T661 for each one

OUR VALUE

- **R&D ONE** has a **knowledgeable** and **experienced** finance and technical team
- **R&D ONE** helps you in understanding the program and its **subtleties**, as well as **uncover** all eligible projects
- **R&D ONE** writes the technical report with the **essential scientific arguments** and content that meet the government's criteria.
- **R&D ONE's** certified accountants and tax experts **unearth all possible eligible expenses** to insure your claim is optimized.
- **R&D ONE** **prepares all the paperwork and forms**, and alleviates the time pressures on your internal resources, thus allowing you to focus on your core business.
- **R&D ONE** **guarantees results**; our fees are on a success basis; therefore, we get only paid if you get your claim is approved.

“Our company benefited greatly from the government’s Scientific Research and Experimental Development tax incentive. It is instrumental in our growth and innovation. R&D One’s personal, pragmatic and professional approach made it easy and risk free in addition to ensuring maximum return”

*Junipero Lagtapon
Vice President & General Manager
COSS Systems Inc.*

THANK YOU!



Danny Ladouceur, C.A.

Telephone: 416.485.0005
Mobile: 416.457.8820
Fax: 1.866.845.1445
Email: danny@rndone.ca
Web: www.rndone.ca

