

New SR&ED claim form released: doing better with less

November 2008

The Canada Revenue Agency (CRA) has released a new version of the T661 form and related guide (T4088).

The new form is intended to simplify the claim process for scientific research and experimental development (SR&ED) tax credits. It is effective as of November 10, 2008. However, if a taxpayer files an SR&ED claim for a tax year ending on or prior to December 31, 2008, the CRA will accept the new or the old version of the form. For tax years ending after December 31, 2008, the new version of the form must be used.¹

The following is a summary of the new requirements for claiming SR&ED credits.

- 1 A maximum number of words that can be used for scientific descriptions;
- 2 A new format for financial information, new terms and new requirements;

- 3 The delivery of a technical description for each project claimed.

1. Limits for the amount of words used

Up until now, technical descriptions were drafted in a “free flow” style. Despite the absence of a formal limit to the number of pages, it was not unusual for taxpayers to receive requests for additional information from the CRA or even comments from CRA representatives indicating that descriptions were not explicit enough, especially with regard to large projects.

The new T661 form includes three sections for scientific descriptions, each with a word limit, regardless of the project’s scope. The first two sections contain a description of advancements and obstacles (uncertainties), each with a 350-word limit. The section bearing on work completed has a 700-word limit. In practice, the CRA now keeps technical descriptions to a maximum of three or four pages.

¹ All of these documents are available on the CRA website at: <http://www.cra-arc.gc.ca/E/pub/tf/t661/>. Legislation, CRA documents and other technical references available on their web site remain in effect.



2. New financial information format, new terms and new requirements

The new T661 form introduces a new format for presenting financial information, which, according to the CRA, is more logical. Many project details are not

included in open questions, but instead are identified in controlling questions. All schedules (A to F) have been removed and incorporated into the form as follows:

- Third-Party Payments (Schedule A) is now Form T1263;
- Special Situations (Schedule B) is now in Part 3 and Part 4;
- Non-Arm's Length Transactions (Schedule C) is now in Part 4;
- Calculation of Salary Base and Prescribed Proxy Amount (Schedule D) is now Part 5;
- List of all SR&ED projects claimed in the year (Schedule E) is now in Part 2; and
- Arm's Length and Non-Arm's Length SR&ED Contracts (Schedule F) is now in Part 2.

This new form should help the tax authorities better establish the link between technical and financial information.

The new “Guide to Form T661” (T4088) has been adapted to the new form. It provides broader definitions relating to issues open for interpretation. However,

two new appendices and an enriched glossary have been added:

- The first appendix contains a table of valid science and technology codes to be used in the T661;
- The second appendix stipulates the requirements for documentation and supporting evidence for claiming SR&ED credits. Documents generated as the SR&ED is being carried out are favoured. The appendix includes many examples of evidence and supporting documents;
- A four-page glossary (instead of one page) defines terms (including many new terms). Although it contains much detail, the challenge will be to use the proper terminology in a more restricted context.

3. Delivery of a technical description for each project claimed

Presently, only the twenty largest projects, in terms of dollar value, have to be described. The new form requires that a technical description must be provided for all projects being claimed.

Taxpayers who claim over twenty projects often do not gather all technical and financial information according to the required format. Adjustments will be necessary in these cases to ensure the necessary information is provided.

How does this affect taxpayers?

Simplifying the SR&ED claim process was necessary. Although this was the CRA's intention, it is likely that in the short- and medium- term, this simplification will raise questions and ambiguities, in particular:

- The greatest challenge for many will be the established word limit for describing a project. It is not always easy to express ideas clearly and concisely. It will be interesting to see the impact that this word limit will have on:
- Improving the clarity of technical descriptions, especially with regard to complex or large projects;
- The number of requests for additional information; and
- The number of scientific verifications.

In this respect, the federal tax authorities recently expressed their intention to add to their scientific personnel. This will enable them to verify a greater number of files. It will become increasingly important for corporations to ensure they have used the right words to describe projects and to succinctly determine the appropriate context for research activities.

- Many new terms will most probably be debated. For example, the term "obstacle" is now being used instead of "uncertainty". Since these programs began, the industry, the CRA and the courts have determined the meanings to be given to terms such as "objective", "advancement" and "uncertainty". The new terms will most certainly require clarification as well.

- Project documentation requirements will be difficult to pinpoint for many, especially in light of such short official descriptions. Documentation requirements will differ for start-up corporations compared to those of large corporations.
- The obligation to document all projects will have no impact on most taxpayers, but will have significant consequences for major claimants.

In short, many adjustments may be needed to ensure your 2009 claims are properly filed. It will be interesting to see how the tax authorities will determine whether a project's description is sufficient for claim purposes. An already well structured corporation, in terms of the SR&ED claim process, may more easily adapt to the new requirements. It is important to start assessing the specific impact now and implement appropriate solutions to submit a clear and precise claim, using the right terminology. We will have to learn to do better with less.

Do not hesitate to contact your Grant Thornton adviser, who can assist you through this process.

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