

Does your business qualify for SR & ED tax credits?

Is your company involved in Scientific Research and Experimental Development (SR&ED) activities? If so, it will be entitled to claim tax write-offs and tax credits above and beyond the usual business deductions. For example, a Canadian controlled private corporation (CCPC) that incurs \$500,000 in qualifying SR&ED expenditures can claim an investment tax credit (ITC) of \$175,000. To the extent this credit is not used to reduce the company's federal taxes payable, it can be refunded to the company. ITC's either reduce the tax cost of the related asset or are included in income in the year following the year the credit is claimed. Some of the provinces also offer investment tax credits and other tax incentives for SR&ED.

It may not always be easy to know if your company qualifies for these credits. Scientific research and experimental development (SR&ED) consists of pure research, applied research and experimental development. Of these three activities, experimental development is often the most difficult to evaluate. Part of the problem is the difficulty in defining what constitutes development. It is equally difficult to distinguish exactly when development ceases and production begins—and production does not qualify as research and development. Some companies are more likely to incur SR&ED activities than others. For example, it

would be expected that almost all manufacturing companies are (or have been) involved in SR&ED activities.

What's involved in making a claim?

The SR&ED Program operated by the Canada Revenue Agency (CRA) will now review your company's activities prior to making a claim and will provide a preliminary opinion on the eligibility of projects for SR&ED tax incentives. We have experienced staff who can assist your company with all phases of making a claim. The pre-claim process involves the identification of SR&ED projects, assistance with the preparation of preliminary project write-ups for the pre-claim project review (PCPR), and meeting with representatives from the CRA as part of this review. Once the projects have been tentatively approved, the next step is the preparation of the required information – i.e. the identification of the SR&ED costs that relate to each project, preparation of the detailed SR&ED schedules, and completion of the SR&ED tax forms. We also have experienced technical advisors who can assist with the write-up of the project descriptions.

Claiming SR&ED tax credits

To claim this special treatment for SR&ED expenditures, it is vital that all required forms are filed and project descriptions are complete. Failure to describe the projects

properly could result in a rejection of the claim or, at best, a significant delay in processing. If your company plans to submit a claim, you should be aware that the CRA is no longer lenient with taxpayers that file claims late. If a complete claim is not filed within 18-months of the year end in which the qualifying expenditures were incurred, it will be rejected.

For this reason, it is important to file your claim early, ideally with the corporation's income tax return for the year. If any information is missing, the claim will still be accepted, as long as it is complete within the 18-month period. If you file a claim at or near the deadline, it will be essential to ensure that the form is complete at the time it is filed, since it may not be possible for the CRA to advise you in sufficient time if anything is missing. The end result is that the tax credits will be lost.

How can we help?

Grant Thornton has considerable experience with all stages of a SR&ED submission. We will also assist you in any direct meetings and discussions with the CRA's SR&ED auditors. Our fees are flexible, competitive and can be modified to suit your particular circumstances and preference.

The rules involved in claiming scientific SR&ED expenditures and related investment tax credits are extremely complex.

Please contact one of our firm's tax specialists to assist with making a claim or determining if your company qualifies. Our expertise in this area will assist you in

getting the maximum benefit from these tax incentives on a cost effective basis.

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