

Research



Scientific Research & Experimental Development (SR&ED Canadian Tax Credit Program)

“How can it help a researcher and their client?”

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Accolade Consulting Group Inc.

Peter Chelonis, P.Eng.

Bill Panopoulos, MBA



SR&ED Program – Quick Facts

- SR&ED - Scientific Research & Experimental Development
- Requires *“a systematic investigation or search, carried on in a field of science or technology, by means of experiment or analysis, for technological advancement”*
- Widely recognized as one of the most favourable R&D tax credit programs in the world, SR&ED is a federal tax incentive program that provides tax credits (of 20-41.5%) on eligible R&D expenditures
- Available since 1985, the SR&ED program has doubled in the last two years, providing more than \$4B in credits to over 22 000 claimants in 2004 (up from \$2B to 15 000 claimants in 2002) representing 27% of the government’s total R&D spending
- Privately-owned Corporations can earn 35% in federal ITCs + 10% in provincial ITCs, while publicly-traded or foreign owned companies can earn 20% in federal ITCs
- Although administrated by the Revenue Canada, the program is essentially driven by a technical report and supported by financials
- “Stacking” is permitted (SR&ED along with IRAP)



“Why is SR&ED is important?”

- SR&ED is the key element in the federal government’s objective to make Canada “one of the top 5 nations for R&D performance by 2010”
- Central to Canada’s innovation policy is the SR&ED program, which is Canada’s largest Federal program that supports industrial R&D, accounting for 27% of government support
- R&D boosts productivity and contributes to economic growth – in fact, for every \$1 given in SR&ED credits, Canada receives back \$1.07 in economic growth/gain
- Canada knows that it needs to create an R&D environment that is attractive to multinational firms, including those headquartered in Canada, which increasingly scan the world for the best place to locate their activities
- SR&ED enhances the value researchers add to their client: The recapture of tax credits can be an incentive for the client to partner with researchers, whose costs can become part of the client’s SR&ED claim

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Types of SR&ED

- **Basic (or fundamental) research** is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundation of phenomena and observable facts, without any particular application or use in view.
- **Applied research** is also original investigation undertaken in order to acquire knowledge. It is, however, directed primarily towards a specific practical aim or objective.
- **Experimental development** is systematic work, drawing on existing knowledge gained from research and /or practical experience that is directed to producing new materials, products or devices, to installing new processes, systems and services, or to improving substantially those already produced or installed.
- **Technical activities in support of the above:**
 - Engineering
 - Design
 - Testing
 - Data Collection
 - Operations Research
 - Mathematical Analysis
 - Computer programming
- **Excluded Work**
 - Market Research
 - Style Changes
 - Quality Control and Routine Testing
 - Commercial Production or Commercial Use
 - Research in Social Sciences or Humanities
 - Geological Exploration
 - Routine Data Collection

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SR&ED's "3-Legged Stool Analogy"



Technological Uncertainty

A scientific or technological uncertainty arises when the solution, or the method of arriving at the solution, is not readily apparent. The work to resolve the technological uncertainty (or uncertainties) can result in an SR&ED project.



Technological Advancement

Scientific or technological advancement is the discovery of technical knowledge that advances the understanding of scientific relations or technologies.

Technological Content

A systematic investigation or search by experiment or analysis must be demonstrated. The personnel responsible for directing and performing the SR&ED project must have the professional skills or experience for the requirements of the project.

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What Expenditures May Qualify?

- Wages and salaries of technical staff/labour involved in SR&ED activities
- Materials consumed or transformed in the process of SR&ED activities
- Subcontractor fees related to SR&ED activities
- Capital Equipment used for SR&ED purposes (ASA)
- Over Head Calculation?

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**Company 'X'
2003 SR&ED**

Project #	Project Name	Specified Salaries	Labour	Materials	Subcontractors	Capital	Total	Total Expenditures w/Proxy
RD-2003-1	Project A	\$2,014	\$15,800	\$ -	\$11,534	\$ -	\$29,348	
RD-2003-2	Project B	\$4,745	\$28,970	\$13,892	\$13,568	\$4,000	\$65,175	
RD-2003-3	Project C	\$6,000	\$17,000	\$12,558	\$11,200	\$ -	\$46,758	
RD-2003-4	Project D	\$2,000	\$25,000	\$10,078	\$ -	\$ -	\$37,078	
		\$14,759	\$86,770	\$36,528	\$36,302	\$4,000	\$178,359	
								\$244,352
		ITC @ 35%	Provincial	\$24,435	(10% of exp)			
			Federal	\$76,971	(90%*35%*exp)			
				\$101,406				
							Proxy \$	65,994

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How Researchers are included in SR&ED \$

SR&ED Contract or Third Party Payment

Characteristics	SR&ED Contract	Third Party Payment
Control of SR&ED Rights	Payer Exclusive	Non-exclusive (generally published)
Number of funders	Usually limited to one payer	Multiple Funders
Type of SR&ED	Commercially focused	Often basic or applied research



Third Party Payments -vs- Contract Work

- The key difference between third party payments and contract SR&ED is the degree of control the payer has over the SR&ED being performed.
- In a contract situation, SR&ED services are performed directly for the payer who obtains the rights to the SR&ED.
- In comparison, a third party payment allows the payer to obtain entitlement only to the results of the SR&ED. Control over the SR&ED activities is relinquished to the performer.
- According to Revenue Canada's policy, all Canadian universities and affiliated colleges are considered to be "approved associations".

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Third Party Payments -vs- Contract Work (cont'd)

Some examples of third party payments:

- Payments for industry-wide SR&ED carried out by an approved industrial research institute where the taxpayer's business is in the same industry.
- Payments by a physician to fund basic medical research, in the physician's field of specialization, at a university.
- A drug company makes a payment to a university for drug research, and their agreement gives the company the rights to any patents resulting from the research.

Example which is not considered third party payments:

- A construction business makes a donation to a hospital for medical research. Since, in general, it would be *unrelated to the business*, and the business would be unable to make use of the results of the research. Therefore the payment fails the **"related to a business" and "entitled to exploit the results" tests.**

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