

# SR&ED Quick Reference for CPAs

A brief overview of Canada's largest R&D incentive program

## What Is The SR&ED Program?

The Scientific Research and Experimental Development (SR&ED) tax incentive is a Federal program to promote R&D in Canada through the delivery of Investment Tax Credits (ITCs) to qualifying businesses.

## SR&ED Requirements

- Work must pass CRA's 5-Question test (see below)
  - "Technological Uncertainty" is arguably the most contentious requirement for eligibility
- Projects in any industry or field of science can qualify
- SR&ED work must be conducted in Canada (small allowance for some out-of-country work)

## SR&ED Benefits

- 35%\* refundable enhanced Federal ITC for CCPCs\*\* with under \$500K prior year taxable income and \$10M taxable capital
- 15% non-refundable Federal ITC for non-CCPCs and CCPCs\*\* over \$800K prior year taxable income and/or \$50M taxable capital
- Provincial top-ups range from 0-30%; some are refundable irrespective of corporate structure (for example, in Alberta, a non-CCPC can still get a refundable ITC of 10%)

## SR&ED FAQ

- SR&ED ITCs can be carried back 3 years or forward up to 20 years (rules vary for provincial ITCs)
- Claims can be submitted up to 18 months after a fiscal year end (though preferable to file with the T2)
- Eligible expenditures include salaries, contractor costs, materials and overhead
  - PRO TIPS! 1. Salaries are more beneficial than contractor amounts, 2. Select the more advantageous of two accepted methods for overhead calculation
- There is no budget cap; >\$3B is awarded annually

## Signs of SR&ED at your Client's Business

- New products, or new features for existing products
- High-powered technical teams (e.g. PEng, PhD, MSc)
- Project cost overruns due to technical problems
- Conference presentations (sharing their learnings)
- Seeking patents or IP lawyer recommendations
- Applications for other innovation funding (e.g. IRAP)

## Tax Planning Opportunities

- Keep taxable income and taxable capital for the associated group at levels that yield refundable ITCs\*
- Manage corporate structures to avoid association rules
- Maximize SR&ED expenditure pool; when not taxable, this can accumulate and, unlike non-capital losses, there is no expiry to this pool

## Recent SR&ED Trends with CRA

- Every first-time SR&ED claimant will be visited by CRA; either a full review or an education service
- Nationally, 1 in 4 projects are selected for full review; finance-only reviews also occur

## More Info

- [www.cra-arc.gc.ca/sred/](http://www.cra-arc.gc.ca/sred/)

\* for expenditures of up to \$3M (pro-rated for short taxation years), 15% thereafter. Enhanced rate ITCs are available for CCPCs with prior year results above the noted thresholds but the allowable expenditure amount subject to the enhanced (35%) rate is reduced and becomes nil once prior-year taxable income becomes \$800K or prior-year taxable capital becomes \$50M.

\*\* or aggregate of an associated group of companies

## CRA's 5-Question Eligibility Test (abridged)

- 1) Was there a Scientific or Technological Uncertainty?** A gap in scientific knowledge or lack of publicly available technology solutions to a problem introduces uncertainty.
- 2) Did the project involve formulating hypotheses aimed at reducing the uncertainty?** In this case, the word "hypotheses" should be interpreted broadly to mean "unproven ideas" or "proposed solutions."
- 3) Was the procedure consistent with the scientific method?** SR&ED work must be conducted systematically through experiments or analyses.
- 4) Did the project attempt to advance science or technology?** The project need not be successful; it is sufficient to attempt an advancement by discovering new scientific knowledge or creating new or improved technology.
- 5) Were records of the hypotheses, tests and progress kept?** It must be possible to verify the technical work.