



**SCIENTIFIC RESEARCH & EXPERIMENTAL DEVELOPMENT
TAX CREDITS EXPLAINED**

ADDING CLARITY AND VISION

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BACKGROUND

For many years Canadian companies have lagged behind companies in other developed countries in their proportional spending on research and development. Increasing the amount of research and development performed in Canada was seen as a means of stimulating Canada's economic development and of creating jobs for technical personnel who might otherwise become part of the "Brain Drain".

In 1985 the Conservative government of Brian Mulroney introduced a new program to reward companies that engaged in research and development. Through the use of Scientific Research & Experimental Development (SR&ED - "shred") refundable tax credits, Canadian companies are able to reduce their tax liabilities while at the same time investing in the development of products and processes to benefit their futures, without reducing the amount of expenses that are deductible for tax purposes.

WE CAN HELP

Many accountants and professional financial advisors are not aware of the program or are not sufficiently acquainted with their clients' business to identify SR&ED opportunities. At Sloan Group, we have developed a comprehensive analytical approach to ensure that Companies are aware of the benefits of the program and the procedures to ensure successful tax credit applications.

There are three basic requirements:

1. The work must be performed in Canada.
2. The companies must be aware that they are performing SR&ED.
3. The companies must apply for the tax credit.

The second requirement is, perhaps, the most onerous since much of the work that qualifies for SR&ED is not what many consider to be scientific research. We have found, however, that the final determination can only be made after a proper study. In some cases, we have been able to assist our clients to separate their activities so that the research can be identified for tax credit purposes.

Many of the Companies that we speak with think of research as only something being undertaken in laboratories by folks in white coats and PhD's after their names. In fact, much SR&ED work is performed by innovators in coveralls, with grease on their hands. People should not feel intimidated by the term "research". We have successfully shown activities that may appear 'ordinary' on the surface qualify for SR&ED.

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DEFINITIONS

SR&ED is defined in the Income Tax Act as:

“systematic investigation or search that is carried out in a field of science or technology by means of experiment or analysis and that is

(a) basic research, namely, work undertaken for the advancement of scientific knowledge without a specific practical application in view,

(b) applied research, namely, work undertaken for the advancement of scientific knowledge with a specific practical application in view, or

(c) experimental development, namely, work undertaken for the purpose of achieving technological advancement for the purpose of creating new, or improving existing, materials, devices, products or processes, including incremental improvements thereto,

and, in applying this definition in respect of a taxpayer, includes

(d) work undertaken by or on behalf of the taxpayer with respect to engineering, design, operations research, mathematical analysis, computer programming, data collection, testing and psychological research where the work is commensurate with the needs, and directly in support, of work described in paragraph (a), (b) or (c) that is undertaken in Canada by or on behalf of the taxpayer.”

As specified in the legislation, the definition of what constitutes SR&ED goes well beyond the common misconception that limits the definition to that contained in paragraphs (a) and (b) of the definition in the Act.

Some of the work that qualifies for SR&ED can include:

- Development of software used in the management of spas and hair salons.
- Formulation of new food recipes or improving the shelf life of old recipes.
- Modification of a paint formulation to increase the ambient temperature at which it can be applied.

Furthermore, it is not necessary for the research to be successful to qualify for the tax credits since, as in all research efforts, the final outcome is affected by technological uncertainty. Failure also has its scientific benefits because it shows that the solution was not obvious and it took trial and error approach to resolve the technical uncertainty.

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TAX CREDIT CLAIMS

SR&ED credits can also be claimed for prior years. However, the SR&ED process requires that the taxpayer must file the claim within 18 months of the fiscal year-end. This is one area in which CRA is most stringent. Their approach is “use it or lose it”.

The Sloan Group has a breadth of experience and skills available to be of assistance with all aspects of the SR&ED claims process:

- ✓ identifying potential,
- ✓ developing procedures,
- ✓ providing technical writing, and
- ✓ preparing the SR&ED applications

SLOAN GROUP MEMBERS

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