



Refunds for Small Business R&D

Scientific Research
and Experimental
Development
(SR&ED)
Tax Incentive Program

More Ways to Serve You!

Pour vous servir encore mieux !



Canada Revenue
Agency

Agence du revenu
du Canada

In this brochure, we use plain language to explain the most common questions concerning SR&ED tax incentives. If you need more help after reading this, you can visit our Web site at **www.cra.gc.ca/sred**, or contact us at one of the numbers listed in the back of this publication.

La version française de cette publication est intitulée
Remboursements pour la R&D des petites entreprises.



Your competitors are getting refunds. Are you?

If your company is developing new or improved products, processes, or materials, this work may qualify for substantial refunds and/or tax credits under the federal government's Scientific Research and Experimental Development (SR&ED) program. Qualifying companies get money back in the form of a refund, a reduction of taxes payable, or both.

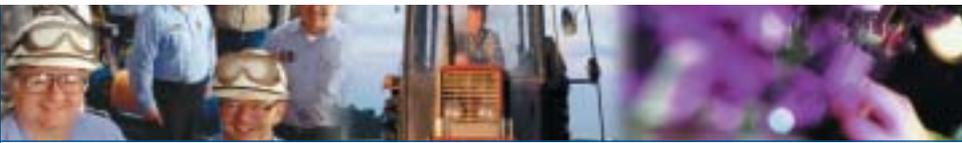
What is the SR&ED program?

The SR&ED program is an incentive program designed to encourage R&D in Canada. The Canada Revenue Agency (CRA) administers the program.

Each year, the CRA receives claims from over 11,000 companies participating in the program. Of these, about 75% are small companies whose claims for R&D expenditures generally range from \$20,000 to \$2,000,000.

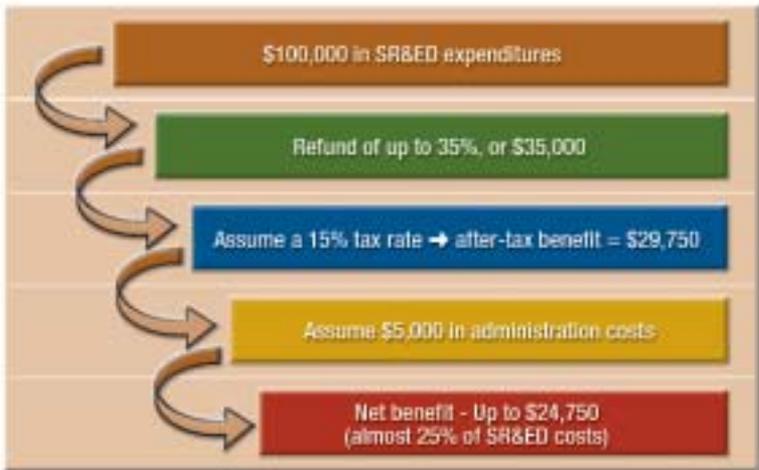
"The SR&ED tax credit program makes it very attractive for small businesses to perform R&D in Canada. At a time when cash management is particularly important, the financial incentive for qualifying corporations to receive a refund of tax credits earned enables early-stage companies to invest in R&D at a higher level...we look at it in terms of how many additional engineers we can bring on to accelerate our projects and growth."

*Walter R. MacDonald, CFO
Trigence Corp.*



What's in it for my company?

If your company qualifies, you could get back up to 35% of your R&D costs, possibly helping to finance further projects and improve your overall financial position. The net benefit can vary, but is demonstrated in the following example:



Are there similar provincial or territorial financial incentives?

Most provincial and territorial governments provide R&D incentives, either separately or as part of the federal program. For more information, visit our Web site at www.cra.gc.ca/sred and select “Provincial and Territorial Government R&D Programs” under “R&D links”.



Will my company's work qualify?

If you are a Canadian small business that develops new or improved materials, products, or processes in Canada, you may be eligible to receive refunds for SR&ED if:

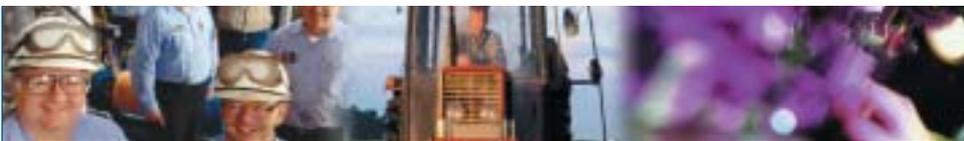
- you have to try to overcome one or more technological problems;
- you have to conduct trials, experiments, or analyses to solve these problems;
- you required experience or technologies not commonly available to your company to solve these problems; and
- your work will result in a technological advancement. Even if your attempts prove unsuccessful, you may still qualify.



You also have to demonstrate that the work was done. You can use reports, models, prototypes, test results, logbooks, or photographs to help support your claim.

"It is my unreserved view that the SR&ED program is one of the most useful programs in Canada. The diligence, dedication, and experience of the SR&ED staff are absolutely outstanding."

*Yousef Haj-Ahmad, President and CEO
Norgen Biotek Corp.*



What expenditures qualify?

You can claim many of the costs incurred for SR&ED during your fiscal year. These costs may include:

- wages for staff doing the SR&ED work
- costs of materials used in performing SR&ED
- costs of new machinery and equipment purchased for SR&ED
- costs of SR&ED contracted out
- lease costs (excluding building leases, or rent)
- third-party payments to organizations such as universities and colleges
- certain overhead costs related to SR&ED, or a proxy for these costs

Some work does not qualify, such as market research, research in humanities or social sciences, quality control and work done outside of Canada.

What happens if my R&D is ongoing?

You can claim for projects undertaken and costs incurred during your company's fiscal year. If the work continues to qualify as SR&ED in later years, you can claim for those years as well.

How do I make a claim?

Obtain Form T661, *Claim for Scientific Research and Experimental Development (SR&ED) Carried Out in Canada* and Schedule T2 SCH 31, *Investment Tax Credit – Corporations*, available at your local tax services office or on our Web site at www.cra.gc.ca/sred.



You should submit your claim with your *T2 Corporation Income Tax Return* within six months of your fiscal year-end. However, you can file SR&ED claims as late as 18 months from the end of your fiscal year (if you are a sole proprietorship, your deadline is 17.5 months from the end of the calendar year. Please refer to our Web site for more details).

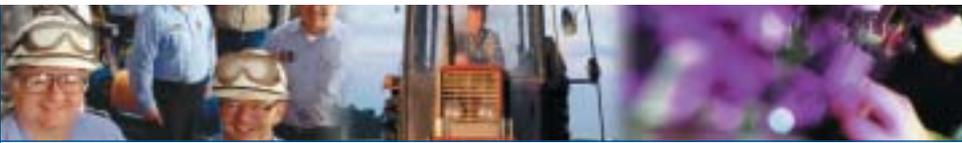
What happens after I send in my claim?

We review your claim to see if we can process it as filed. If we **can** process your claim as is, we will reduce your taxes payable or, if applicable, issue a cheque to you. If we **cannot** process your claim as is, we may request more information or ask to visit your site.

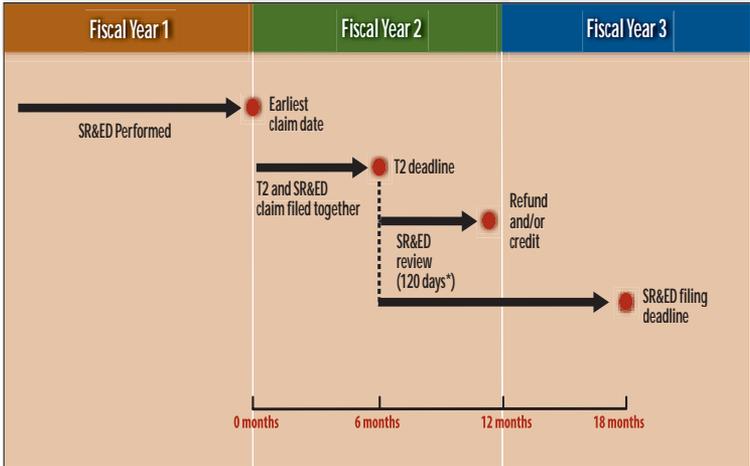
If you are claiming for the first time, we may ask to meet with you to further clarify what kinds of expenditures you can claim, discuss how to present your claim, answer your questions, and help ensure that all your work that qualifies has in fact been claimed.

How long will it take to process my claim?

If you qualify for a refund, your complete claim can usually be processed within 120 days of the CRA receiving it.



The following diagram shows the time line for submitting and processing claims.



* The SR&ED program has the following standards for processing claims: refundable claims – 120 days from receipt of a complete claim; non-refundable claims – 365 days from receipt of a complete claim; claimant-requested adjustments to refundable claims – 240 days from receipt of a complete claim.

Will the CRA try to reduce my claim?

No. It may turn out that parts of your claim do not qualify, but there may also be work you haven't claimed that does qualify. We want to make sure you get the credits you deserve for **all** your SR&ED, not reduce your claim.



Will my entire business be audited if I make a claim?

No. The purpose of the SR&ED review is only to examine information relating to your SR&ED claim, not to examine other aspects of your business.

Will my competitors find out about my R&D?

No. We know that this is a big concern for businesses, and we are proud of our record in maintaining confidentiality. In fact, employees and outside consultants have a legal obligation to treat all your tax information confidentially.

What services are available to assist my company?

- **Public Information Seminars** provide you with a general overview of the program, explain the program's eligibility criteria and what expenditures are eligible, and how to file an SR&ED claim.
- **Industry-Specific Seminars** explain the SR&ED program's eligibility criteria as they relate to a specific industry.
- The **First Time Claimant Service** puts your business in touch with an SR&ED representative who can provide you with the information, tools and assistance you need to complete your first SR&ED claim.
- The **Preclaim Project Review Service** offers you a preliminary opinion on the eligibility of your projects.





- The **Account Executive Service** links you up with a designated contact person from the SR&ED program. This makes for effective, two-way communication.

“The Account Executive Service is a great service provided by the SR&ED program. Our account executive knows exactly what we are doing and takes time to understand our processes. Every year our account executive meets with us before we prepare our claims which makes the review process a lot more efficient.”

*Jeff Potts, C.A.
Chief Financial Officer
T-Base Communications Inc.*





Where can I get more information?

For more information on the SR&ED program, visit our Web site at www.cra.gc.ca/sred.

You can also contact one of the CRA tax services offices listed below.

Location	Telephone
Halifax	1-866-433-5986 or (902) 426-2386
Québec	1-866-204-0101, Ext. 648-7151 or (418) 648-7151
Montréal	(514) 496-1317
Laval	1-888-784-8709 or (514) 338-4198
Ottawa	(613) 598-2106
Toronto Centre	(416) 973-2814
Toronto West	(905) 566-6010
Hamilton	(905) 572-2650
Calgary	(403) 691-5890
Vancouver	1-866-317-0473
Toll free	1-800-959-5525