

# SR&ED 2014: Changes that may affect your business

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The Scientific Research and Experimental Development (SR&ED) Tax Credit claim program, administered by the Canada Revenue Agency (CRA), underwent many changes at the beginning of 2014. A SR&ED tax credit claim can have a substantial impact on a company's cash flow, providing a refundable tax credit on eligible R&D expenditures. It is, therefore, important to understand how the changes may affect your business.

The SR&ED program is focused on providing both refundable and non-refundable tax credits to companies to develop new materials, devices, products or processes, or to invest in basic or applied research. The initiative provided \$3.6 billion in tax assistance in 2012, making it the largest federal tax incentive program. This total is expected to grow as Canadian companies continue to invest in more innovative research.

As part of the 2014 changes, the CRA has launched new programs to assist and guide first-time claimants with their SR&ED claims. Many of the other changes are reflected in the SR&ED claim form, the T661.

Any of the changes made to the SR&ED program may have direct consequences on the expenditures your company is eligible to claim. The first change is that capital property, or the right to use capital property, can no longer be claimed as a SR&ED expense for all research and development completed after December 31, 2013. This means that most modifications or new expenses related to permanently upgrading your facility beyond 2013 are no longer eligible under the program. Likewise, the calculated overhead amount, known as the prescribed proxy amount (which is based on eligible labour), has been reduced by 10 per cent, bringing the new eligible amount to 55 per cent.

Many of the changes for 2014 are subtle and found in the T661 claim form. For example, questions that asked where the SR&ED work was carried out, formerly lines 223 to 229 in Part 2, have been removed since this information is collected elsewhere in the form. Other lines that have been moved or removed include: lines 235 and 238, related to the purpose of the claimed work, as well as lines 230 and 232, related to what type of work was performed (moved to 620 and 622). All information related to what work was completed for SR&ED purposes is now located together on the form.

Another form change aims to make every application more uniform. Instead of asking different questions in Section 1 of Part 2 depending on the field of your company's research and development, the same questions are posed to all claimants. This means that if a company is involved in SR&ED in multiple fields, it is easier both to state this information and to complete the form. For example, if advances have been made in software and automation for your production lines, as well as advancements in the products themselves, this is reflected more accurately and with greater ease in your claim.

There is also an addition to the T661: a new section that requires disclosure in relation to who prepared the SR&ED claim. This new section is enforced by a monetary penalty against any claim preparer or company that fails to state their involvement or provides false information regarding the claimant's SR&ED activities. This new section, Part 9, requires detailed business information about the claim preparer, including their tax numbers and information on any contractual agreements between the claim preparer and the claimant. The CRA introduced this measure to capture information about SR&ED tax credit claim preparation and to increase accountability.

To assist companies with their SR&ED tax credit claims, the CRA has also launched a new program: the First-Time Claimant Advisory Service (FTCAS), which offers a free, in-person meeting with a CRA representative at your company's location to discuss your claim. If you've never filed for SR&ED before, you should be aware that FTCAS is not optional. The service is mandatory for all selected first-time claimants contacted by the CRA.

Keeping up with changes to the CRA's SR&ED tax credit program is important, as these modifications can have direct implications for your business.

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