



Strengthening Your SR&ED Claim with Documentation

By Ela Malkovsky, NorthBridge Consultants

With the potential of earning millions in investment tax credits on qualified projects, the Scientific Research and Experimental Development (SR&ED) program is a substantial resource for companies to grow and stay competitive. Staying informed about program changes and utilizing simple strategies can enhance the odds your claim will be successful and expedite the entire process.

Recently, SR&ED accrued labels as being complicated and was targeted for improvement in the 2012 federal budget. Revisions to the program include:

1. Capital costs in 2014 and later will no longer be considered eligible SR&ED expenditures;
2. Proxy reduction to 55 per cent of direct labour costs will be phased in by 2014;
3. Third-party contract payments will be reduced to 80 per cent as of 2013; and

4. The investment tax credit for companies that don't qualify as Canadian Controlled Private Corporations (CCPCs) reduced to 15 per cent in 2014 and onwards.

The budget acted on recommendations laid out by the Jenkins report in October and recommends the CRA conduct an internal review of SR&ED policies and practices to increase the number of technical reviewers. For companies conducting R&D, the CRA will be placing a heavier emphasis on contemporaneous documentation. Such documentation must be specific to the work conducted, is preferably dated and lists people involved—something many companies find overwhelming when gathering documentation for an SR&ED claim. Although this may seem challenging, a lot of experimental, financial and administrative documentation is naturally generated during a project, which is often sufficient evidence to support a claim.

DOCUMENTATION

The experimental phase of a project usually produces records of trial runs, test protocol and data, experimental

designs and sketches, samples and prototypes, lab notebooks, photos, videos and audio recording and analysis of test results/ observations and conclusions. Experimental documentation can support any claim by providing a chronological narrative of work accomplished and is a great resource for creating technical and financial portions of a claim by demonstrating a contemporaneous record of resources dedicated to the project.

Contemporaneous project documentation provides direct evidence of work done in accordance with the CRA project requirements. The CRA replaced requirements for documentation demonstrating systematic investigation with a requirement for documentation demonstrating a five-stage process of scientific investigation. According to the SR&ED Claim Review Manual, this process consists of “the observation of the subject matter of the problem; the formulation of a clear objective; the identification and articulation of the [uncertainty]; the formulation of a hypothesis designed to reduce or eliminate the [uncertainty]; and the methodical and systematic testing of the hypotheses.” Contemporaneous experimental documentation is crucial for current and future SR&ED claims as it provides a record of improvement.

Financial documentation necessary to support claimed expenditures is usually available from standard business operations—contracts, time sheets and records of resources allocated for materials, machinery, equipment and

overhead costs. The challenge is identifying expenditures involved with SR&ED projects as opposed to ‘business as usual’ expenditures—a distinction outlined on the CRA website. It’s advised that financial tracking systems be implemented.

Administrative documentation is a byproduct of most business operations—e-mails, project planning documents, meeting minutes and progress reports. These documents provide a contemporaneous record of project elements possibly left out of experimental and financial documentation but which significantly contribute to project eligibility as primary records of “behind the scenes” SR&ED work—research and information gathering.

Changes to the SR&ED program may seem overwhelming but upon review of experimental, financial and administrative documents produced throughout the fiscal year, you may find relevant documents for projects being claimed. Optimal project documentation will strengthen your claim and enable you to write a clear and concise claim demonstrating the five-stage process of scientific investigation. A well-supported, clear and concise claim can be processed faster and is less likely to be reviewed or rejected. ■■■

Ela Malkovsky is an SR&ED Team Specialist with NorthBridge Consultants. To find out how the experts at Northbridge Consultants can help you with your SR&ED claim, go to www.northbridgeconsultants.com or call (855) SREDNOW (773-3669).



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