

A STRATEGY WITH DRAMATIC IMPACT

Maximize your claim under the Scientific Research & Experimental Development Program

by BRIAN HUNTER



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Many companies today are faced with the challenge of implementing new strategies to turn their operations around. Layoffs and cost cutting are the order of the day, but this is hardly the way to build long-term success. Growing sales is difficult for most in a declining economy. How then to improve the bottom line? Here are actual results of how one local manufacturer returned to profitability:

ment Program ("SR & ED"). This involved a detailed third party review of their operations to uncover previously unclaimed SR & ED expenditures and implementation of proper procedures to document their R & D activities to support their claim.

The impact of this strategy is quite dramatic to their bottom line. The business, while still underperforming, should remain viable. If the business focused on grow-

	2006	2007	2008
Sales (000's)	\$1,005	\$967	\$980
Gross Profit	292	305	307
Fixed Expenses	394	383	402
Operating Loss	(102)	(78)	(95)
SR & ED TAX CREDIT	20	23	123
Net Profit/(Loss) Before Tax	(82)	(55)	28

This example illustrates a common scenario. Sales have been stagnant for the past three years and while costs have been controlled, management have been unable to make the necessary overhead cuts to become profitable. Without a new strategy, this company is headed for failure. In 2008, the company realized the benefits of a new plan to maximize their claim under the Scientific Research & Experimental Develop-

Canada has the most generous R & D incentives in the world. If you are not taking advantage of them, you are simply not competitive.

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ing sales revenues instead of maximizing the SR & ED tax credit, sales would have to increase by 33% to achieve the same bottom line (assuming no change in gross profit margins or any increase in

with the proxy method, CCPC's can receive 68.5% funding of eligible labour expenses.

Many companies have been able to use the additional SR & ED funds to rein-

In addition, they have implemented on-going, long-term action plans to track and file claims on a yearly basis, ensuring continued program success.

Who knows, by hiring some talented

By hiring some talented employees, focused on developing new products, perhaps you will develop the next "Blackberry" for your industry.

fixed expenses). In today's economic environment, a sales increase of this magnitude is highly unlikely.

Canada has the most generous R & D incentives in the world. If you are not taking advantage of them, you are simply not competitive, as your competition very likely is. Generally, a Canadian-controlled private corporation (CCPC) can earn an investment tax credit (ITC) of 35% up to the first \$2 million of qualified expenditures for SR&ED carried out in Canada, and 20% on any excess amount. Other Canadian corporations, proprietorships, partnerships, and trusts can earn an ITC of 20% of qualified expenditures for SR&ED carried out in Canada. In addition, the Ontario Government provides a further 10% incentive.

Developing your own SR & ED strategy could begin by visiting the CRA website at www.cra-arc.gc.ca or by contacting a reputable SR & ED consulting firm (Google SR & ED). For those already submitting a claim, consider getting a second opinion as, in our experience, many companies under-claim eligible expenses, thereby greatly reducing their refund. It is a myth that SR & ED is limited to white coat lab workers.

Next, begin a review of your operations. You should be looking for ways to improve methodologies, techniques and processes, and ways to recycle or reclaim waste products. Consider developing new or improved products. Conduct operational efficiency studies, tests and collect data. All these expenditures may be eligible for a tax refund and, at the same time, may greatly improve the future profitability and viability of your business.

With the decline in manufacturing activity over the past several years, there are a great number of talented skilled workers available. Why not consider hiring them instead of unskilled workers who may be unable to contribute to your SR & ED activities? Your tax refund may offset their added cost and you will have the additional benefit of a more productive workforce. For example, when filing

invest in new equipment, hire more employees, and expand their facilities, leading to substantial growth of their business.

employees, focused on developing new products, perhaps you will develop the next "Blackberry" for your industry. Happy SREDing! X

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