

Understanding recent changes to the SR&ED program

By Michael Crozier, Northbridge Consultants

Still one of the largest subsidy programs offered by the federal government, the Scientific Research & Experimental Development (SR&ED) program provides over \$3 billion annually to Canadian companies that are conducting innovative work.

But the past few years have seen some changes to the program, including new releases of the T661 claim form, a new auditor review manual, and an evolution in the approach of the Canada Revenue Agency (CRA) as to how claims are reviewed. It may seem as though the guidelines for the SR&ED program have suddenly become stricter, and that there is much uncertainty as to the adequate levels of documentation required in the event of an audit.

To make it less mysterious, here's a quick breakdown of some of the changes the program has undergone. During 2011, the CRA definitely moved towards conducting more reviews of SR&ED claims, at increased levels of detail and documentation. But despite these modifications, the overall goal of ensuring compliancy hasn't changed.

DETAILING DETAILS

While the CRA strives to appoint a reviewer for your claim who has background knowledge of your industry, it doesn't always work out that way. In order to facilitate the review process, talk to the reviewer about the unique technical challenges you faced while working on the SR&ED activities, and identify the SR&ED work for them. Also, clearly explain the merits of the projects as you see them, making your case as to why they fit SR&ED eligibility criteria. A tour of your facility can be beneficial in showing the reviewer where your SR&ED work takes place; plan ahead on highlighting sample prototypes (both small and large) where SR&ED activities were conducted, and also take the time to comment on any issues and/or limitations that you encountered.

Documentation is one of the most important parts of any SR&ED review, of course, and, as noted, there is now a stronger emphasis for contemporaneous documentation than in the past. The reviewer now expects to see at least one example of every type of documentation that you checked off on your T661 form when you submitted your SR&ED claim. At the very minimum, the CRA reviewer will expect to see a labor breakdown detailing the hours each employee worked, the cost and amount of materials used, a differentiation between SR&ED activities and non-SR&ED activities, key experimental activities, subcontractor information (with statements of work), and supporting documentation for your SR&ED activities.

WHAT'S THE FREQUENCY?

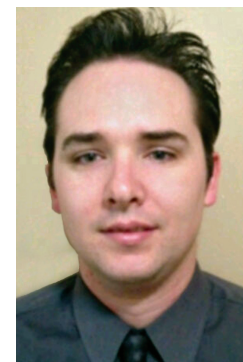
With this in mind, tips for creating useful contemporaneous documentation include tracking your activities on a weekly basis, at the very minimum; tracking all activities that are done, not just the ones that you know from the beginning are going to

be SR&ED-eligible activities; keeping notes that detail the purpose and results during all trials; keeping multiple versions of designs, which help show the design's progression and provide an opportunity to explain why certain changes needed to be made; and, most important, dating all documents.

The changes that have been made to the SR&ED program are geared at improving the program as a whole, with an increased focus on improving integrity. They may seem overwhelming, but don't let them prevent you from taking advantage of a potentially golden opportunity to recoup some of your product development costs.

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Michael Crozier is the group manager, technical services, with Cambridge, Ont.-based Northbridge Consultants. Northbridge specializes in assisting companies to maximize their SR&ED claims. For more information about Northbridge's services, please go to www.northbridgeconsultants.com.



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