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How to Get More from Your SR&ED Claim

You're leaving money on the table if you don't take full advantage of the federal government's massive tax credit program

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The **Scientific Research and Experimental Development (SR&ED)** program is the most lucrative tax credit supporting research and development in Canada. It's meant to encourage innovation and increase business competitiveness.

When used effectively, it can provide an annual source of financing for the development of new and improved products and processes. This funding can be reinvested back into the business through purchasing new equipment, hiring new employees, expanding your facilities, taking on more challenging projects or paying down debt, thereby allowing companies to continue investing in innovation.

But the SR&ED program can be complicated and, as such, companies don't always get as much out of the program as they should. Projects must be well supported and reflect the methodology and purpose of the program in order to be eligible for funding. To gain more value from the SR&ED program without straining your resources, there are several key factors to consider:

1. UNDERSTAND ELIGIBILITY

In order to increase the likelihood that your claim will be accepted, it is critical to demonstrate a thorough understanding of SR&ED program eligibility criteria. While it is tempting to think that including *more* activities in your application will qualify you for a bigger return, claimed activities that do not meet SR&ED eligibility criteria will cast doubt on the validity of other activities, regardless of their individual merit. Therefore, only including activities that fully qualify for the tax credit will demonstrate your understanding of program guidelines, thus increasing the likelihood that the claim will be accepted at full value. What qualifies? Traditional R&D efforts, of course, but also activities that support innovation, such as incremental process improvements. What does not? "Business-as-usual" activities, routine engineering and work performed to solely increase profits rather than to overcome technological uncertainty; including these in your claim may jeopardize your credibility.

2. DOCUMENT EVERYTHING

When it comes to SR&ED, what is recorded is rewarded. Activities that are not supported by relevant and contemporaneous documentation are not eligible, and may call into question the overall eligibility of the claim. Well-supported SR&ED projects involve a range of technical and financial documentation that covers all project stages (such as planning, testing, process validation, meetings, etc.) and comes from all departments (R&D, quality assurance, engineering, maintenance and others).

The good news is that this is all information you probably have (or *should* have) relatively easy access to. Technical documentation can include laboratory notebooks or journals, test results, experimental designs, electronic communications, photos, videos and more. Similarly, financial documentation may include bills of materials for prototypes and samples, subcontractor invoices, time sheets and payroll records. Keep it all, and keep it all easily accessible; this documentation will both strengthen your claim and protect you in the case that it is audited.

3. TRACK THINGS CONTINUOUSLY

It is easy to fall behind on tracking SR&ED activities; when you're running a growing business, assembling a bunch of paperwork hardly seems like time well spent. However, the program requires documentation for eligible projects to be generated as experimentation is occurring, which is why it's essential to get your people on board. Specifically, it's worth taking the time to train employees on how to continuously track SR&ED activities as they occur. You may consider designating an employee as an SR&ED lead, responsible for setting milestones and creating incentives related to the program, along with instilling a culture of innovation among your other employees. Yes, such efforts may be initially time consuming, but in the long term it's a resource-friendly way to provide the best possible support for your SR&ED claim.

An effective tracking system also helps, ideally one that documents hours worked on each project, details of completed tasks and thought processes throughout the work. It may also be helpful to set up unique tracking numbers for each SR&ED-eligible project across different departments. This will allow your company to maximize eligible expenditures and increase the claim by ensuring that all activities are captured.

By tracking SR&ED work continuously throughout the year and including only eligible, well-supported activities, you

can help ensure that no costs are missed and that all activities are solidly backed up. This will get you more out of your SR&ED claim—and to get more money back to spend on growing your business and continuing to innovate.

*Ela Malkovsky is technical writer and editor-in-chief at **NorthBridge Consultants**, a consultancy that helps Canadian companies innovate, compete and grow by leveraging research- and technology-based funding solutions.*

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Have you ever take advantage of the SR&ED program? Share your strategies and experiences by commenting below.
