

Capitalizing on Innovation

Accessing SR&ED tax credits

By Norman Nicol

There are certain regulated guidelines in the food industry with respect to food safety and quality that would leave some to believe there is no room for innovation. In some cases, this is where the SR&ED (Scientific Research and Experimental Development) program benefits manufacturers the most.

SR&ED is a federal tax credit program that encourages Canadian businesses of all sizes and in all sectors to conduct research and development in Canada that will lead to new, improved or technologically advanced products or processes. The Canada Revenue Agency (CRA) is responsible for administering the program; however, the SR&ED department is completely separate from the regular tax department, so no information is shared between the two.

Developed more than 20 years ago, the SR&ED program is the largest single source of federal government support for industrial research and development. Every year it provides upwards of \$4 billion to more than 18,000 claimants.

Unfortunately, many companies do not believe or are unaware they are engaging in any qualifying SR&ED activities. The government estimates that more than 50 per cent of firms in Canada that are eligible for SR&ED tax credits are not taking advantage of this program.

Both public and private companies can benefit from the SR&ED program. Publicly-owned companies can earn 20 per cent of qualified expenditures as tax credits or refunds. Generally, Canadian-controlled private corporations or CCPCs are applicable for up to 35 per cent of qualified expenditures as tax credits or refunds. CCPCs can also qualify for additional provincial tax credits ranging from 10 to 37.5 per cent of qualified expenditures.

To qualify for the SR&ED program, companies must file within 18 months of the end of the taxation year in which they are making a claim. Also, work must advance the understanding of scientific relations or technologies, address scientific or technological uncertainty and incorporate a systematic investigation by qualified personnel. Therefore, meeting a regulation, which is a cost of doing business, is not SR&ED eligible. But advancing processes or products to get to that point can be SR&ED eligible.

The success of a project is not an issue when claiming; in fact,

failures are as valuable as successes. The CRA solely looks at a company's knowledge base and advancement of knowledge.

To make a claim a project must meet the SR&ED criteria of technological advancement, technological uncertainty (obstacles) and technological content. Among the easiest to satisfy, technological advancement refers to a company's advancement in its knowledge base; even if a project fails, it still qualifies if the company can show something was learned. Technological uncertainty, now referred to as technological obstacles, refers to the hurdles encountered while trying to develop a product or process. For there to be technological uncertainty, the company must not know the outcome of the project or the route by which the project will be carried out. Technological content applies to the work performed. The work claimed must involve a systematic investigation, experimentation or analysis by qualified personnel.

Beyond receiving money back for eligible research and development expenditures incurred, there are a number of benefits associated with taking advantage of the SR&ED program, including:

- It provides an excellent source of funds for the continued development and improvement of products;
- It expands the development process outside the laboratory on to the production floor and into the boardroom, creating stronger and more meaningful relationships throughout a company;
- It broadens the development process to include a company's supply chain and customer chain, creating valuable vertical strength and synergies among key partners for future growth;
- It can work hand in hand with HACCP (Hazard Analysis Critical Control Points) and food safety initiatives and requirements, optimizing both streams effectively; and
- It helps generate better profits. ●●

Norman Nicol is a sales manager at Northbridge Consultants, a full service SR&ED consulting firm with 20 years experience. He has 15 years of sales experience helping small and medium enterprises in a variety of industries, ranging from retail to manufacturing. For more information, contact Norman at 519.623.2486 or norman@northbridgeconsultants.com.