



# Scientific Research and Experimental Development (SR&ED) Tax Incentive Program

## General Information



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# Topics covered

- **Overview of the program**
- **SR&ED definition, work, and assessing eligibility**
- **Tax advantages and SR&ED expenditures**
- **Free services and tools**



# Overview of the program



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# SR&ED Tax Incentive Program

The objective of the SR&ED Tax Incentive Program is to encourage Canadian businesses of all sizes and in all sectors to conduct research and development (R&D) in Canada.

- It is the largest single source of federal government support for industrial R&D in Canada.
- In 2011, the program provided more than \$3.6 billion in tax credits to more than 23,000 claimants.

# What the program offers

- ITCs of 15% or 35%
- Allowable SR&ED expenditures that can be carried forward indefinitely
- The ability to deduct 100% of the cost of capital equipment used all or substantially all (ASA) for SR&ED in the tax year (before 2014)

# Basic requirements

- Claimant must be carrying on a business in Canada in the tax year
- Expenditures must be incurred
- SR&ED must be performed in Canada directly by the claimant or for the claimant
  - Certain expenditures for SR&ED performed outside Canada are permitted
- SR&ED must be related to the claimant's business
- Claimant must file a complete claim by the **reporting deadline**: 12 months after the filing due date of the return of income for the tax year





# SR&ED definition, work, and assessing eligibility



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# Definition of SR&ED

**“...systematic investigation or search** carried out in a field of science or technology by means of **experiment or analysis...for the advancement of scientific knowledge or technological advancement”**



# Purpose of SR&ED

## Basic research

- For the **advancement of scientific knowledge** without a specific practical application in view
  - For example, research on a particular virus or antigen

## Applied research

- For the **advancement of scientific knowledge** with a specific practical application in view
  - For example, development of a vaccine to combat the virus

## Experimental development

- For the **purpose of achieving technological advancement**
  - For example, development of a process to produce the vaccine

# Assessing eligibility

A two-step approach:

Step 1 – Determine if there is SR&ED

Step 2 – Determine the extent of eligible work  
(only if there is SR&ED)

# Step 1 – Determine if there is SR&ED

- The approach involves answering **five questions**

**The answer to all five must be**

**yes**

**for any work to be SR&ED**

# Step 1 – Determine if there is SR&ED (cont'd)

**Question 1.** Was there a **scientific or technological uncertainty** – an uncertainty that could not be removed by standard practice?

- Whether a given result or objective can be achieved or how to achieve it is not known or determined based on the existing technology base or level
- Distinct from a technical problem

# Step 1 – Determine if there is SR&ED (cont'd)

**Question 2.** Did the effort involve formulating **hypotheses** specifically aimed at reducing or eliminating that uncertainty?

- Idea consistent with known facts
- Possible solutions

# Step 1 – Determine if there is SR&ED (cont'd)

**Question 3.** Was the adopted procedure consistent with the total discipline of the **scientific method**, including formulating, testing, and modifying the hypotheses?

- Formulating one or more hypotheses
- Planning and executing the testing of the hypotheses by **experiment** or **analysis**
- Developing logical conclusions based on the results or findings of the **experiment** or **analysis**

# Step 1 – Determine if there is SR&ED (cont'd)

## Question 4. Did the process result in a **scientific or technological advancement**?

- Scientific or technological advancement is the generation of information or the discovery of knowledge that advances the understanding of scientific relations or technology.
- Rejection of a hypothesis can be an advancement.
- Advances in technology should be distinguishable from the benefits of the new or improved product or process.



# Step 1 – Determine if there is SR&ED (cont'd)

## Question 4 (cont'd)

- It moves the **technology base or level** of a company to a higher level.
- Novelty, innovation, or increased functionality **alone do not** represent or establish technological advancement.
- Success, failure, marketability, or commercial significance of work is not relevant to eligibility.

# Step 1 – Determine if there is SR&ED (cont'd)

**Question 5.** Was a record of the hypotheses tested and the results kept as the work progressed?

- Documents and/or other evidence to support the work is expected
- Indicators and measures used to determine if goals are met should be identified and documented

# Step 2 – Determine the extent of eligible work

The definition of SR&ED determines the extent of the eligible work by:

- including support work; and
- excluding some other types of work

# Support work

The work that corresponds to the needs **and** is directly in support of basic research, applied research, or experimental development

Work involving:

- |                        |                         |
|------------------------|-------------------------|
| •Engineering           | •Computer programming   |
| •Design                | •Data collection        |
| •Operations research   | •Testing                |
| •Mathematical analysis | •Psychological research |

**Note:** The *Income Tax Act* (ITA) definition of support work is limited to the eight categories listed here.

# Excluded work

Work not eligible for benefits under the SR&ED program:

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>•Market research or sales promotion</li><li>•Quality control or routine testing</li><li>•Research in social sciences or the humanities</li><li>•Prospecting, exploring or drilling for, or producing petroleum, natural gas, or minerals</li></ul> | <ul style="list-style-type: none"><li>•Commercial production or use</li><li>•Style changes</li><li>•Routine data collection</li></ul> |
|--|---|



# Tax advantages and SR&ED expenditures



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# Tax advantages: Expenditures

The pool of deductible SR&ED expenditures, including both current and capital expenditures (before 2014), can be:

- deducted in full or in part against net income in the year; or
- carried forward indefinitely (pooling concept)



# Tax advantages: Tax credits

The ITC equals 15% or 35% of your **qualified** SR&ED expenditures. The ITC rate was 20% until December 31, 2013.

The ITC can be:

- used to reduce Part I tax in the year;
- refunded if applicable; or
- carried forward up to 20 years or back up to 3 years

# SR&ED expenditures

## Allowable SR&ED expenditures for SR&ED carried on in Canada

- Salaries or wages of directly engaged employees
- Materials consumed and/or transformed in performing SR&ED
- Contract expenditures for SR&ED performed for you
- Third-party payments
- Overhead and other expenditures
- Lease cost of equipment used in performing SR&ED (before 2014)
- Capital expenditures (ASA) (before 2014)

**Note:** Certain expenditures for SR&ED performed outside of Canada are permitted.



# Free services and tools



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# Public information and industry-specific seminars

- Public information seminars give a general overview of the program and are intended for new or potential claimants
- Industry-specific seminars explain the program's eligibility criteria as it relates to a specific sector
- View current seminars in your area at <http://www.cra-arc.gc.ca/txcrdt/sred-rsde/smnr/nprsn-eng.html> under “Services and tools” or contact your local tax services office

# Self-assessment and learning tool (SALT)

- An enhanced version of former Eligibility Self-Assessment Tool (ESAT)
- Improved predictability through a self-assessment of your work and expenditures
- Practical information on the SR&ED Program's eligibility requirements
- Two standalone interactive PDF files (Downloadable)
  - SALT Step 1 – Understand the eligibility requirements
  - SALT Step 2 – Identify extent of eligible work & expenditures

[www.cra-arc.gc.ca/txcrdt/sred-rsde/slt-eng.html](http://www.cra-arc.gc.ca/txcrdt/sred-rsde/slt-eng.html)

# For more information

**SR&ED Enquiries 1-866-317-0473**

[www.cra-arc.gc.ca/txcrdt/sred-rsde/menu-eng.html](http://www.cra-arc.gc.ca/txcrdt/sred-rsde/menu-eng.html)

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**Questions?**