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SR&ED Newsletter - Edition 2000-1

Welcome to the first of what we expect to be a semi annual newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims. This newsletter provides an overview of significant SR&ED developments issued by the CCRA¹ and the tax courts for the year to date as well as related tax planning opportunities. The newsletter also provides a brief overview of our “R&D Base” project tracking software and links for interested parties to download a free demonstration version.

The major topics of this newsletter are outlined below.

Recent SR&ED tax cases & related issue(s)	2
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¹ Canada Customs and Revenue Agency

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SR&ED Newsletter Edition 2001-1

Welcome to the first 2001 installment of our semi annual newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims. This newsletter provides an overview of the following significant SR&ED developments.

Recent SR&ED tax cases & related issue(s)	2
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SR&ED strategies – eligible wages	11
SR&ED wages – decision tree.....	12

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SR&ED Newsletter **Edition 2001-2**

Welcome to the second 2001 edition of our semi annual newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims. This newsletter includes significant SR&ED developments issued by the CCRA and the tax courts during the past six months. The major topics of this newsletter are outlined as follows:

Recent SR&ED tax cases & related issue(s)	2
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Tools for analyzing patents	9
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Payments to non-residents.....	10
1) Withholding taxes	10
2) SR&ED eligibility	11
Implications & related planning	11

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SR&ED Newsletter **Edition 2002-1**

Welcome to the first 2002 edition of our semi annual newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims. This newsletter includes significant SR&ED developments issued by the CCRA and the tax courts during the past six months. The major topics of this newsletter are outlined as follows:

Recent SR&ED tax cases & related issue(s)	2
Datatcalc Research Corporation v. The Queen.....	2
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Mimetex Pharmaceuticals Inc. v. The Queen	2
Issue(s): “defacto” control	2
Recent CCRA Directives	3
Extended ITC Access for Farm Producers.....	3
Food and Consumer Packaged Goods Sector SR&ED Guidance Document.....	3
Formula Ingredient, Manufacturing Specifications (F.I.M.S.)	3
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Water and Energy Sources as Materials	6
SR&ED strategies – “subcontractor” vs. “royalty” agreements - ensuring SR&ED eligibility	7
Ontario Business Research Institute (OBRI) Credit – 20% & refundable	8

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SR&ED Newsletter **Edition 2003-1**

Welcome to the first 2003 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims. This newsletter includes significant SR&ED developments issued by the CCRA and the tax courts during the past six months. The major topics of this newsletter are outlined as follows:

Background to the Federal SR&ED Tax Credits	2
Qualified CCPC's - defined	2
Phase-out on Taxable Income expanded	2
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2003 Budget: Taxable income vs. capital phase-outs.....	3
Recent CCRA Directives	4
Time lines for submitting & processing claims	4
What happens after I send in my claim?	4
SR&ED Strategies - SR&ED Capital Issues	5
SR&ED assets decision tree	5
ASA vs. SUE SR&ED equipment rules	6
Three classes of SR&ED capital assets	6
Strategies in documenting long-term SR&ED intent	6
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Author's commentary and related tax planning.....	7
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SR&ED Newsletter Special Edition 2004-1

Welcome to the first 2004 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

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Maritime-Ontario Freight Lines v. R.....	2
Issue(s): adequacy of technical documentation	2
Synchrosat Limited v. R.	3
Issue: allocating salary to only SR&ED activities.....	3
Blue wave Seafoods vs. R.	4
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Unpaid amounts.....	5
Accruing reasonable R&D wages when “cash strapped”	5
Sample Facts – Synchrosat revisited	5
Reporting of “Unpaid” amounts	6
Degree of disclosure required.....	6
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Other factors to consider with respect to year-end SR&ED accruals:	6
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New Schedule 31 – ITC claim form.....	9
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Previous requirements: T661E (99&01).....	9
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Effect on project descriptions	9
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Future developments & unresolved SR&ED issues	11

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SR&ED Newsletter **Edition 2004-2**

Welcome to the second 2004 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

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Proposed “exceptions” to the association rules	4
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Planning for investment by “public companies” or “foreign” investors.....	6
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Recent CRA Directives - technical	10
Plastics, materials processing, equipment & tool making guidance document.....	10
Case studies – 16 sample projects	10
Pulp and paper sector guidance document	10
New definition of “prescribed” Stock Exchanges in Canada	11

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SR&ED Newsletter Edition 2005-1

Welcome to the first 2005 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

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Now need “statements of work” for subcontractors	3
CRA Note on stock option benefits claimed for SR&ED	3
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Author’s commentary: “sale” does NOT disqualify work.....	4
Budget 2005 – “Canada” includes EEZ.....	5
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SR&ED Newsletter **Edition 2006-1**

Welcome to the first 2006 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

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VR interactive - late filing (>18 months)	2
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Alcatel – SR&ED eligibility of stock options	3
Legislative proposal to disallow > Nov. 17, 2005	3
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Small Business Limit and related SR&ED phase-out \$400-600K	4
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SR&ED Newsletter **Edition 2006-2**

Welcome to the second 2006 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

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SR&ED Newsletter **Edition 2007-1**

Welcome to the first 2007 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

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2) Increase ITC rates & thresholds.....	6
3) Eligibility of work outside Canada.....	6
4) Credits to passive SR&ED investors.....	7
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When does the SR&ED testing end?.....	9
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SR&ED Newsletter **Edition 2007-2**

Welcome to the second 2007 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

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Armada - eligibility of SR&ED preparation fees	3
Nuytten - personal (T1) SR&ED claim disallowed since work in Co.....	4
Hopmeyer - Whether SR&ED eligible while insolvent	5
Systemhac - Director fined \$75,000 for SR&ED tax fraud in B.C. court	6
Recent CRA & Ontario pronouncements.....	8
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SR&ED Newsletter **Edition 2008-1**

Welcome to the first 2008 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

Recent SR&ED tax cases & related issue(s).....	3
White star - representation by officer vs. legal counsel	3
Ruling & rationale: denied - self-representation not warranted.....	3
Chichkov – non arm’s length payments & carrying on business	3
Ruling & rationale: no SR&ED & NAL payment (ineligible)	4
Foster - LPs eligibility & frivolous appeal	4
Ruling & rationale: clearly limited partner –fined \$3,000 in costs.....	5
Lilly v. Novopharm – Patent defence – requirement to define Standard Practice	5
Ruling & rationale: quantified comparison to “standard practice” required	6
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2008 budget – enhanced incentives	7
i) Expenditure Limit – now \$3 million	7
ii) Taxable Income Phase-Out Limit – to \$700,000	7
iii) Taxable Capital Phase-Out Limit to \$50 million	7
Graphs & Mechanics of the new phase-out formulas.....	7
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Carry-back of non-refundable ITC – restriction on refunds.....	8
Ontario SRED credits - recent changes	9
Ontario Business Research Institute (OBRI) Tax Credit – pre-approval requirement waived.....	9
Ontario harmonization - The Transitional Debit/Credit	10
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SR&ED Newsletter **Edition 2008-2**

Welcome to the second 2008 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

Recent CRA pronouncements	2
New T661 form in Fall 2008	2
SR&ED program usage & spending statistics	2
Federal & provincial SR&ED funding	2
Expenditures by Province	2
Number of companies claiming SR&ED credits	3
Credits earned by “rate of ITC’s”	3
Credits earned by “size of corporation”	3
Credits earned by “industry sector”	4
International comparisons of R&D incentives.....	5
Marginal effective tax rates on investments in R&D assets	5
SR&ED – dispute resolution - appeals and objections.....	6

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SR&ED Newsletter –2008-3 – New T661 form

On November 10, 2008 the Canada Revenue Agency released a new form and related guide for claiming SR&ED tax credits. In the author’s opinion, the most significant changes are outlined below:

Part 1 – General information	2
Contact information for technical & financial people in charge	2
Partnership information	2
Part 2 - Project information	2
Section A – project identification	2
Fields of science – new table to classify	2
Identify new vs. continuing projects.....	2
Identify SR&ED collaborators and partners	2
Clarify - development environment & methodology	2
Sections B & C - Project descriptions - can NOW elect from 2 formats	2
i) Section B - Experimental Development format – 3 sections (350-700 words ea.)	2
Clarify if: A) Products vs. Processes & B) New vs. Improved.....	2
ii) Section C - Basic or applied research format – 2 sections (350-700 words ea.)	3
Section D – Additional project information	3
SR&ED project descriptions - preparer information	3
Technical documentation retained – sort into 11 categories.....	3
Section E – Project cost	3
Part 3 - Calculation of SR&ED expenditures	3
Section A: Choice of overhead method (unchanged)	3
Section B: Calculation of allowable SR&ED expenditures	3
Identify wages for work outside Canada	3
Traditional overhead costs – new table.....	3
New form for Third Party Payments (Universities).....	4
Part 4 – Calculation of qualified SR&ED expenditures for ITC purposes (unchanged).....	4
Part 5 – Calculation of prescribed proxy amount (PPA) (unchanged)	4
Part 6 – Additional information (unchanged)	4
Part 7– Claim checklist (unchanged).....	4
Part 8 – Certification.....	4
Identification of T661 “form preparer” moved to the certification section.....	4
Summary – Author’s commentary on overall effects of new form	4
Timing - required for year ends in 2009 or later	4

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SR&ED Newsletter – 2009-1 **New T661 form – problems & opportunities**

On November 10, 2008 the Canada Revenue Agency released a new SR&ED form including a sample project description which has been analyzed to address problems and opportunities specific to the major tax preparation software packages (Taxprep and Profile) as outlined below:

CRA software project COMMENTARY (2 pages).....	2
Comments on the current CRA description (Pros & Cons)	4
Box 240: The square - define “standard practice”	4
Box 242: The triangle - define “technological uncertainty” (obstacles).....	6
Box 244: The circle - identify “experimentation performed”	8
Template to identify and quantify the required elements:	12
Sample CRA software project – key SR&ED components via template	13
Sample CRA software project – rewritten to remove existing documentation shortfalls (3 pages).....	14
WORD COUNT VS. RELATED MAXIMUMS: CRA, TAXPREP & PROFILE	17
TAXPREP - CRA software project – rewritten to remove documentation shortfalls (3 pages)	18
TAXPREP - specific problems to preparing descriptions	21
Column width (too small @ 78 characters?).....	21
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PROFILE - specific problems to preparing descriptions	25
1) Form allows <60% of characters vs. Taxprep	25
2) Contents of form do not fully print.....	25
3) Column width (too wide @ 141 characters?)	26
4) Each box printing on a separate page – each description now 7 pages	26
CRA feedback & potential filing strategies related to new forms	27
1) CRA response to problems cited – corrections coming	27
2) Providing technical documents via website	27
Appendix A: Best practices for isolating SR&ED “key criteria”	28

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SR&ED Newsletter Edition 2009-2

Welcome to the second 2009 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

Recent SR&ED tax cases & related issue(s).....	3
Advanced Agricultural – Eligibility of clinical trials	3
Ruling & rationale: LOSS - NOT SR&ED since lacked “hypotheses”	3
Advanced Agricultural – revoking “proxy” election once filed	4
Ruling & rationale: LOSS - NO ability to revoke election.....	4
Spasic – “hobby” vs. “carrying on business”	5
Ruling & rationale: LOSS - carrying on business requires “documentation”	5
New T661 form – problems & opportunities (update)	6
Unresolved issues:	6
Each box printing on a separate page – each description now 7 pages	6
Potentially resolved issues:.....	6
Providing documentation via website.....	6
Resolved issues:.....	6
Profile (corporate tax software) word limits too low.....	6
Recent CRA pronouncements	7
2009 budget – enhanced incentives	7
i) Expenditure Limit – now \$3 million (Feb. 25/08 – prorated)	7
ii) Taxable Income Phase-Out Limit – to \$500- 800K (2010 prorated)	8
iii) Taxable Capital Phase-Out Limit to \$50 million (Feb. 25/08 prorated)	8
Graphs & Mechanics of the new phase-out formulas.....	8
Summary of credits by Province:	9
Qualified corporations (enhanced ITC’s)	9
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Recent Provincial pronouncements	10
Ontario 2009 budget – enhanced incentives.....	10
New phase out limit (\$500-800K) – effective Dec.31/09.....	10
Non-refundable 4.5% credit - effective Dec.31/08.....	10
Alberta – 2009 new 10% refundable SR&ED ITC	10
Effective after Dec 31, 2008.....	10

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SR&ED Newsletter **Edition 2009-3**

Welcome to the third 2009 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

Factoring SR&ED credits	2
Selected SR&ED funding / factoring agents in the Golden Horseshoe area.....	2
6 W's of factoring SR&ED credits	3
What is factoring?.....	3
When to consider it?	3
Who to use?	3
Where does the money go?.....	3
Why (or why not) to factor?	3
How to start the process?.....	3
Considerations for SR&ED claim preparers	3
Level of involvement.....	3
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SR&ED Newsletter **Edition 2009-4**

Welcome to the fourth 2009 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

Recent CRA Directives on filing new T661 SR&ED forms	2
Questions and Answers - New SR&ED Claim Form and Guide (Addendum) [released 2009-06-04]	2
Q.2 If neglect to tick a certain box or I tick the wrong box on Form T661, will claim be denied? ..	2
A.2 No, with one exception.....	2
Q.5 Can I submit (IRAP) project summaries instead of completing Part 2 of Form T661?.....	2
A.5 No.....	2
Q.6 Will the CRA disallow a project based on the technical content or quality of the narratives provided on lines 240 to 252?	2
A.6 No.....	2
APP 2004-02r2-eng Filing Requirements for Claiming SR&ED (June 11, 2009).....	3
CRA accepts 20 largest SR&ED projects (for taxation years ending before 2010)	3
Transitional Measures for Filing Form T661	4
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Issue: timing of tax on proxy amount	7
Tax mechanics of issue: received vs. receivable	7
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SR&ED Newsletter **Edition 2010-1**

Welcome to the first 2010 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

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SR&ED Newsletter **2010-2: (Technological Advancement Edition)**

Welcome to the second 2010 edition of our newsletter regarding recent developments to Scientific Research and Experimental Development (SR&ED) project management and tax credit claims.

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