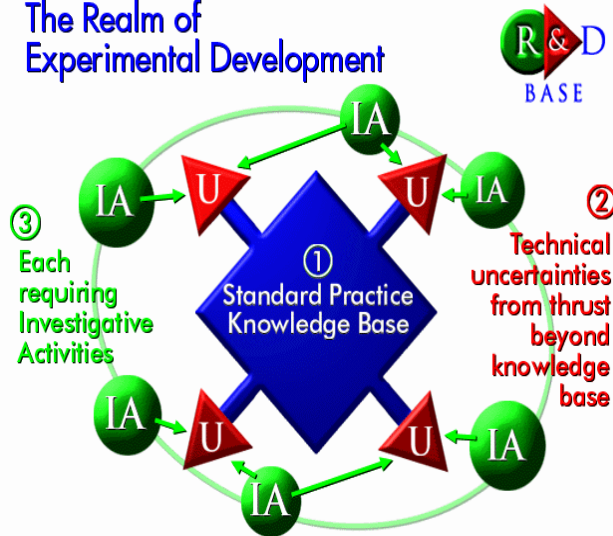




What activities are eligible for SR&ED tax credits?

The Realm of Experimental Development



“Achieving a **technological advance** would require removing the element of **technological uncertainty** through a process of **systematic investigation** ... For an experimental development activity to be eligible the **technological advance** achieved **has only to be slight.**”¹

¹ Excerpt from Canada Revenue Agency (CRA), IC 86-4R3 paragraph 2.13

ELIGIBILITY FOR SR&ED TAX CREDITS

SR&ED is defined for income tax purposes²:

“**Scientific research and experimental development** means **systematic investigation** or search that is carried out **in a field of science or technology** by means of **experiment or analysis** and that is

- (a) basic research, ...
- (b) applied research,or
- (c) experimental development, **namely, work undertaken for the purpose of achieving technological advancement for the purpose of creating new, or improving existing, materials, devices, products or processes, including incremental improvements thereto,...**”

“The search for a **meaningful advance** ... is satisfied whether or not the activity is successful. In other words, **determining that a hypothesis is incorrect also represents a scientific or technological advance.**”³

PLEASE CONTACT US

Our “R&D Base” products are designed to assist with SR&ED tax credit claims.

www.rdbase.net

² in subsection 248(1) of the Income Tax Act

³ Excerpt from CRA, IC 86-4R3 paragraph 2.12

DEFINITION OF AN SR&ED “PROJECT”

The CRA⁴ states, “To establish whether or not the work you claim is eligible, we have to examine eligibility **at the project level**. You must present your claim showing your work organized as SR&ED projects.”

“An SR&ED project consists of a set of **interrelated activities** that meet the **three criteria** of SR&ED defined in the current version of Information Circular 86-4, *Scientific Research and Experimental Development*. This means that the set of activities must be necessary for:

1. the attempt to achieve specific scientific or **technological advancement** and
2. overcome scientific or **technological uncertainty**, and
3. must be pursued through a **systematic investigation** by means of experiment or analysis performed **by qualified individuals.**”⁵

The next three sections examine specific, CRA guidelines, on each of these criteria.



⁴ Canada Revenue Agency

⁵ Excerpts from CRA form T40885- the Guide to completing an SR&ED claim

Phase 1: The Square Define "Standard Practice"



“Commonly available sources of knowledge or experience are those that can reasonably be assumed to be **readily available to those with basic training or experience in the field of concern**. These resources enable them to be sufficiently **qualified to participate** in SR&ED. They also include knowledge that is available in the **business context** of the firm....An enterprise may not have **practical access** to information proprietary to a competitor, or known in specialist or academic circles.”⁶

“Essentially, the **presence of a technological uncertainty puts the project into the realm of experimental development** when solutions cannot be based on standard practice alone. A claim for qualifying expenditures should clearly explain all **departures from standard practice**.”⁷

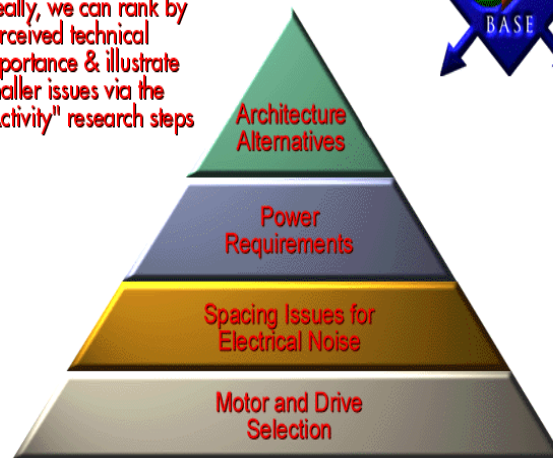
⁶ CRA IC 86-4R3 – glossary

⁷ CRA IC 86-4R3 paragraphs 4.3 & 4.4

Phase 2: The Triangle Technical Uncertainty (TU)



Ideally, we can rank by perceived technical importance & illustrate smaller issues via the "Activity" research steps

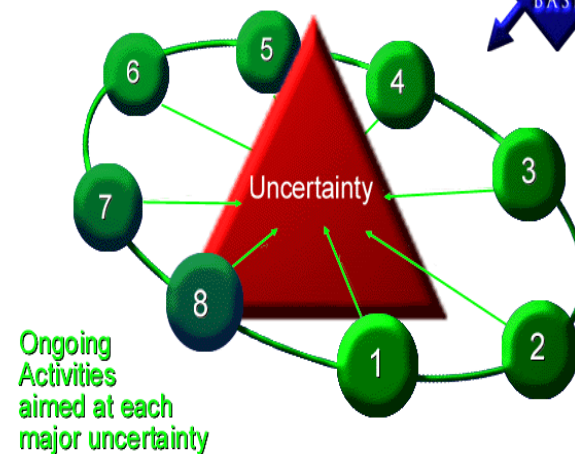


“Specifically, **scientific or technological uncertainty** may occur in either of two ways:
➤ **[scientific uncertainty]** it may be uncertain whether the goals can be achieved at all ; or

➤ **[system uncertainty]** the taxpayer may be fairly confident that the goals can be achieved, but may be **uncertain which of several alternatives** (i.e., **paths, routes, approaches, equipment configurations, system architectures, circuit techniques, etc.**) will either work at all, or be feasible to meet the desired **specifications or cost targets**, or both of these... Work on combining standard technologies, devices, and/or processes is **eligible if** non-trivial combinations of established (well-known) technologies and **principles for their integration carry a major element of technological uncertainty**; this may be called a "system uncertainty.”⁸

⁸ CRA IC 86-4R3 paragraph 2.10.2

Phase 3: The Circle of Ongoing Investigation



The CRA requires work to be **supervised by personnel with appropriate technical backgrounds** and clarifies that in describing activities performed;

“It **must demonstrate the presence of analysis or experiment** in the methodology you used to carry out the work. It must also include the results you obtained **and the conclusions you made**.”

For example, the types of technical **records that are appropriate** to support your claim are: an analysis of the problem, internal design documents and drawings, test data and results, & progress reports.”⁹

⁹ Excerpt from CRA form T4088 – Guide to form T661