

Simple solutions for claiming SR&ED Tax credits

On overview of the:
-eligibility criteria
-Tax credit rates &
-Methods to simplify claims

Presented by:
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June 06

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Suggested Webinar protocols

Please:

- Reserve questions until end of session
- Press “*6” on your phone to mute
- Feel free to follow-up via
 - Email : dsabina@meuk.net OR
 - Phone 905-631-5600
 - with any questions

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PRESENTATION OVERVIEW

- A - Income Tax Act - Eligible Activities
- B - Eligible Research fields
- C - Eligible SR&ED project – CRA
- D - Sample project descriptions
- E - Eligible costs & tax credit rates
- F - Common documentation problems
- G - How MEUK can help

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A - SR&ED legislation re. Eligible costs & tax credits

The Income Tax Act defines SR&ED as

- “**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
- c) Experimental Development *

advancement for the purpose of **creating new, or improving existing, materials, devices, products or processes*

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7-8 types of “supporting” SR&ED activities – “if commensurate with project needs”

d) 8 areas of supporting work:

- Engineering
- Design
- Operations Research
- Mathematical analysis
- Computer programming
- Data gathering
- Testing &
- (sometimes - Psychological research)*

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SR&ED does NOT include

- **commercial production, market research or sales promotion**
- **quality control or routine testing**
- **social sciences or the humanities**,
- aesthetic or “**style**” changes, or
- Claims filed > deadline (18 months from year end for corporations).

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B - Eligible Research fields:

INCLUDE:

- Chemical & Materials research
 - Food & life sciences
 - Machinery development
 - Software
 - Moulds Tooling and Dies & Plastics
 - Consulting & Environmental Engineering
- Log-in to rdbase.net for project examples**

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C - Eligible SR&ED project (CRA)

“Set of interrelated activities that:

1. Attempt **technological advancement** and
2. Overcome **technological uncertainty**, and are
3. Pursued through **systematic investigation by qualified individuals.**”

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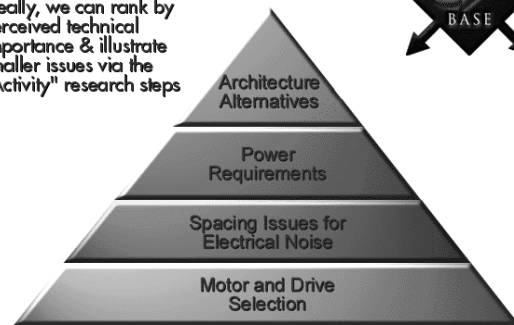
Phase 1: The Square Define "Standard Practice"



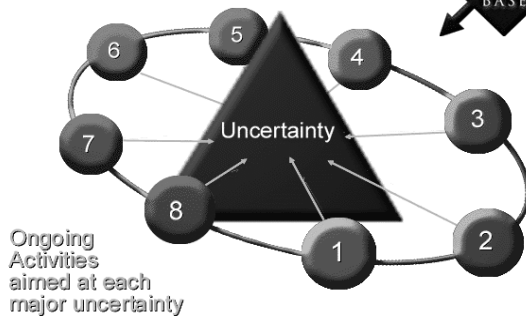
Phase 2: The Triangle Technical Uncertainty (TU)



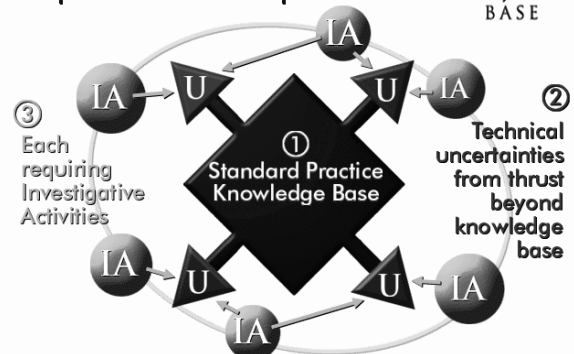
Ideally, we can rank by perceived technical importance & illustrate smaller issues via the "Activity" research steps

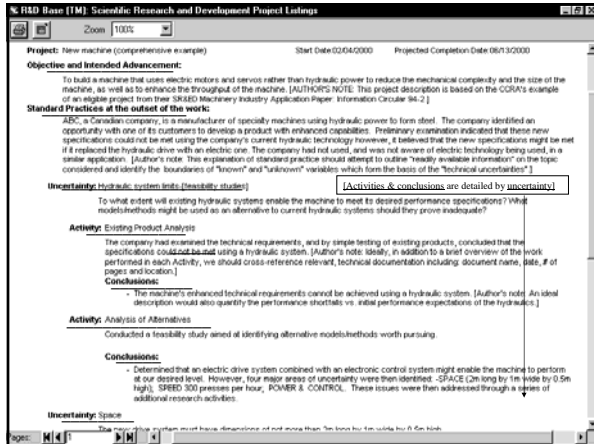


Phase 3: The Circle of Ongoing Investigation



The Realm of Experimental Development





D – Project costs & descriptions

Summary of costs by project

Project descriptions # 1-4

#1 - Improve compounding equipment (D-1's)

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Project #1 : improve compounding equipment

I) OBJECTIVE: modifying older equipment (the Gelimat) to produce a unique form of compounding equipment

DEPARTURES FROM STANDARD PRACTICE

- -high output rates,
- -high dispersivity,
- -absence of shear

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Project #1

II) TECHNOLOGICAL ADVANCEMENTS / UNCERTAINTY:

- practical ways to sense and
- control the temperature

III) SYSTEMATIC INVESTIGATION

- Activity 1 - thermocouples
- Activity 2 - fibre optics

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Projects #2 to #4

New database method (D-2's)

Chemicals - catalyst process (D-3's)

Plant breeding - new cultivar (D-4's)

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Project #2: Software - database methodology

I) OBJECTIVE:
Develop a new data basing method to double the speed of the database

DEPARTURES FROM STANDARD PRACTICE

- Existing DMS works well with small data sets, but has excessive access times (>30 seconds) with large databases (>1 gigabyte).

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Project #2:

II) TECHNOLOGICAL ADVANCEMENTS / UNCERTAINTY:

Relational Environment Issues

III) SYSTEMATIC INVESTIGATION

- experimented with existing data communications model
- uncovered new uncertainty with respect to the optimal method to combine relational and packet access methods.

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Project #3: Optimize DA Catalyst

I) OBJECTIVE:

- develop improved analytical procedures for chemical analysis of various metals in catalyst systems.

DEPARTURES FROM STANDARD PRACTICE

minimize catalyst batch-to-batch variability

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Project #3

II) TECHNOLOGICAL ADVANCEMENTS / UNCERTAINTY:

- which catalyst fabrication conditions (such as metal ratio, zinc concentration, OH/Cl ratio) would impact powder properties

III) SYSTEMATIC INVESTIGATION

- Lab testing

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Project #4: Plant breeding example

I) OBJECTIVE:

- develop new cultivar that embodies genetic traits for higher yield & resistance

DEPARTURES FROM STANDARD PRACTICE

- 10% improved yield
- 10% improved lodging resistance over currently available cultivars
- no sacrifice of resistance to leaf disease(s) or Phytophthora root rot.

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Project #4:

II) TECHNOLOGICAL ADVANCEMENTS / UNCERTAINTY:

- feasibility of combining the desirable genetic traits from different germplasm sources without sacrificing disease resistance

III) SYSTEMATIC INVESTIGATION

- Over 10,000 experimental crosses were made & analyzed in the nursery

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E - Eligible costs & tax credits

Qualified expenditures include Canadian;

- ➤ Wages,
- ➤ Materials,
- ➤ Subcontractors,
- ➤ Overheads &
- ➤ Capital equipment

Expenditure pool & tax credits

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SR&ED Tax credits

- Basic federal (20%)
 - Corporations, GP's & individuals
- Enhanced credits
 - (35% CRA & 10% Ontario)
 - Phase outs – income & capital
 - refundability
- Other provincial incentives

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F - COMMON DOCUMENTATION PROBLEMS

Optimal implementation:

- ✳ Willing contributions of "investigators"
- ✳ Ability to identify and rank the relative significance of technical uncertainties
- ✳ Ability to provide "conciseness and brevity" by focusing on significant technical issues

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1 - No Standard Practice


Common SR&ED documentation problems



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2 - Routine Engineering

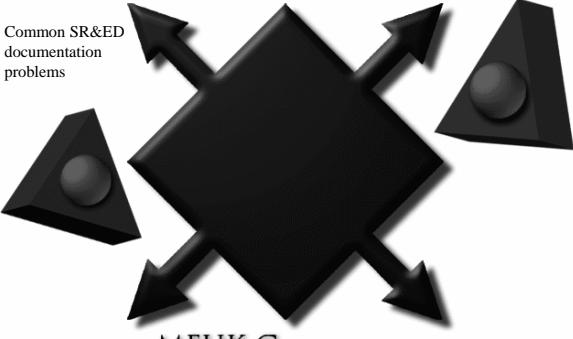
Common SR&ED documentation problems



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3 - Activities Beyond Qualifications

Common SR&ED documentation problems

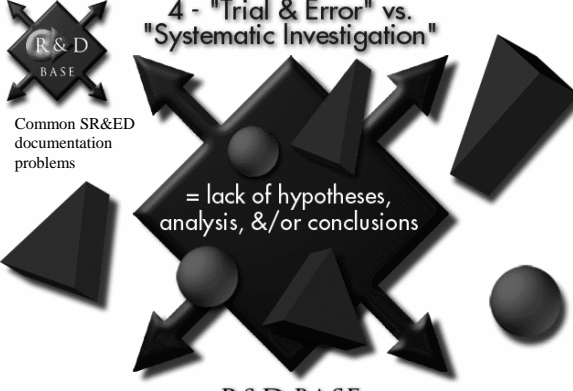


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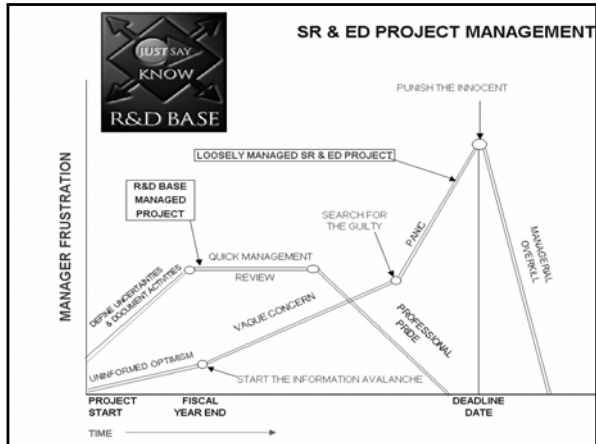
4 - "Trial & Error" vs. "Systematic Investigation"

Common SR&ED documentation problems

= lack of hypotheses, analysis, &/or conclusions



R&D BASE



G - HOW MEUK CAN HELP

- * **R&D Base.net - \$1,000/ year / user**
- * Technical documentation support
- * Financial / tax filing support
- * **Full claim preparation – using your existing accountants (typical fee 20% of ITC recovery) – see www.meuk.net**

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