

Overview of the Scientific Research and Experimental Development (SR&ED) Tax Incentive Program

What is the SR&ED program?

The Scientific Research and Experimental Development (SR&ED) tax incentive program is the largest single source of federal government support designed to encourage research and development (R&D) in Canada.

Each year, the SR&ED program provides over \$4 billion in investment tax credits (ITCs) to over 18,000 claimants. Of these, about 75% are small businesses.

What is the objective of the SR&ED program?

The objective of the SR&ED program is to deliver SR&ED tax incentives in a timely, consistent and predictable manner, while encouraging businesses to prepare their claims in compliance with tax laws, policies and procedures.

The Canada Revenue Agency (CRA) is continuously seeking new ways to improve and simplify its service delivery. The program commitments are to:

- ensure that businesses are aware of the program and can access it as easily as possible; and
- administer the program with fiscal integrity by applying the legislation correctly, consistently and fairly, and ensuring that claimants receive the full amount to which they are entitled.

How can the SR&ED program benefit my company?

The SR&ED program can provide financial incentives by helping to:

- fund the scientific and technological advances that keep your company competitive and
- better position your company for future SR&ED projects.

You may be able to deduct SR&ED expenditures to reduce your tax liability in the current year or carry these expenditures forward indefinitely to reduce your tax liability in future years.

You may be eligible to receive benefits in the form of a refundable investment tax credit (ITC), a reduction of taxes payable, or both.

Unused ITCs may be carried back three years or carried forward 20 years if they were earned in tax years ending after 1997 (carried forward 10 years if they were earned in tax years ending before 1998).

What businesses are eligible?

The SR&ED program is available to any business operating and carrying out R&D in Canada. Certain expenditures for SR&ED performed outside Canada are also permitted.

Any business that is involved in basic or applied research, or in advancing technology in order to improve or develop new materials, devices, products or processes may be eligible under the SR&ED program.

The businesses that are eligible under the SR&ED program fall into three groups:

1. Canadian-controlled private corporations;
2. Other corporations; and
3. Proprietorships (individuals), partnerships and trusts.

1. Canadian-controlled private corporations (CCPCs)

If you are a CCPC, you may receive a refundable investment tax credit (ITC) on your qualified SR&ED expenditures. You must first apply these ITCs against taxes payable in the year of the claim. The balance may be refunded.

The rate of refundability is based on your taxable income and taxable capital in the previous year and an expenditure limit. The table in the section “What are the SR&ED Investment Tax Credit Rates” provides further information.

2. Other corporations

For other corporations, the ITC is 20% of qualified current and capital SR&ED expenditures. The ITC may be applied to taxes payable and is not refundable.

3. Proprietorships, partnerships and trusts

For proprietorships, partnerships and trusts, the ITC rate is 20% of qualified current and capital SR&ED expenditures. After applying the ITCs against taxes payable, you may receive a cash refund on 40% of the balance of the ITCs earned in the tax year.

What is “SR&ED”?

The definition of “scientific research and experimental development” given in subsection 248(1) of the *Income Tax Act* can be summarized as:

*...systematic investigation or search carried out in the field of science or technology by means of **experiment or analysis**...to advance **scientific knowledge** or to achieve **technological advancement**.*

The work must fall into one of the following categories:

- **Experimental development** – This is the work done to achieve **technological advancement** for the purpose of creating new, or improving existing, materials, devices, products or processes.
- **Applied research** – This is work done to **advance scientific knowledge** with a specific practical application in view.
- **Basic research** – This is work done to **advance scientific knowledge** without a specific practical application in view.

SR&ED can also include other work that is directly in support of the experimental development, applied research or basic research. This support work includes **only** the following eight specific types:

- engineering
- design
- operations research
- mathematical analysis
- computer programming
- data collection
- testing
- psychological research

The support work to be claimed must correspond to the needs of the experimental development, applied research or basic research performed.

What is not “SR&ED”?

Certain work is not eligible for benefits under the SR&ED program, including:

- market research or sales promotion;
- quality control or routine testing of materials, devices, products or processes;
- research in social sciences or the humanities;

- prospecting, exploring or drilling for, or producing minerals, petroleum or natural gas;
- commercial production of a new or improved material, device or product, or the commercial use of a new or improved process;
- style changes; and
- routine data collection.

What are the eligibility requirements?

For any R&D work to be eligible for SR&ED:

The **work must be a systematic investigation or search** carried out **by means of experiment or analysis**;

- This would include identifying the obstacle, formulating an objective, developing a plan of action including the method of experimentation or analysis and testing the hypothesis.

The work must be **carried out in a field of science or technology** that is not excluded by the legislated definition of SR&ED;

- Excluded work is described under the heading “What is not SR&ED?”

AND

The work must **undertaken either**:

- **For the purpose of achieving technological advancement.** The work must attempt to increase the technology base or level from where it was at the beginning of the systematic investigation or search. The technology base or level includes all the technological resources within the business and all the knowledge on the technology that is reasonably available in the public domain.

OR

- **For advancing scientific knowledge.** A systematic investigation or search must be carried out with the aim of generating new scientific information or understanding of scientific relations.

Note

A project does not have to succeed to qualify for the SR&ED tax credit.

What expenditures can I claim?

You may claim many of the expenditures incurred for SR&ED during your fiscal year. These expenditures may include:

- Salaries and wages*;
- Materials;
- SR&ED contracts;
- Lease costs of equipment;
- Overhead;
- Third-party payments; and
- Capital expenditures.

***Note**

Certain expenditures for SR&ED performed outside of Canada are now permitted.

What are the SR&ED investment tax credit rates?

The investment tax credit (ITC) rates and the percentage that you can have refunded or credited vary according to the way your business is structured. The following table outlines the ITCs and the refundable rates that apply to qualified SR&ED expenditures. Most businesses are Canadian-controlled private corporations (CCPCs) with taxable income of less than \$400,000.

Category	SR&ED expenditures	ITC rate	Refundable portion of ITC earned on		Non-Refundable portion of ITC earned on	
			Current expenditures	Capital expenditures	Current expenditures	Capital expenditures
Canadian-controlled private corporations (CCPCs)	Up to your calculated Expenditure Limit*	35%	100%	40%	N/A	60%
	In excess of your calculated Expenditure Limit*	20%	40%	40%	60%	60%
Other corporations		20%	N/A	N/A	100%	100%
Proprietorships, partners of a partnership and trusts		20%	40%	40%	60%	60%

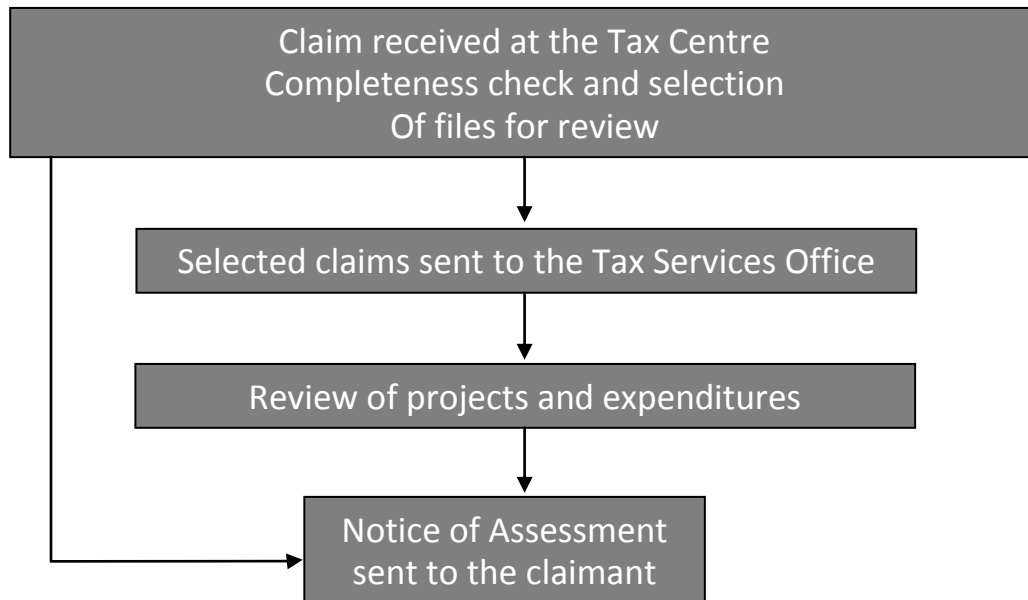
*The expenditure limit (\$3 million maximum) is based on the previous year's taxable income and previous year's taxable capital. The limit is reduced when taxable income is greater than \$400,000 or taxable capital is greater than \$10 million. The maximum expenditure limit is \$2 million for tax years ending prior to February 26, 2008.

Unused ITCs may be carried back three years or carried forward 20 years if they were earned in tax years ending after 1997 (carried forward ten years if they were earned in tax years ending before 1998).

What happens after my claim is submitted?

When your claim is submitted, we will determine if it can be processed as filed without further review. If we **can** process your claim **“as filed”**, we will reduce your taxes payable or, if applicable, issue a cheque to you. If we cannot process your claim **“as filed”**, we may contact you to request more information or to discuss the review of your claim.

The following chart illustrates how we process SR&ED claims:



What long will it take to process my claim?

If you qualify for a refund, your claim can usually be processed within 120 days after the CRA receives it. A claim could be processed as filed or may require further review.

The following chart illustrates our service standards and goals for processing your claim:

Service Standards	Goal
Refundable Claims	120 days
Claimant-requested adjustments to refundable claims	240 days
Non-refundable Claims	365 days
Claimant-requested adjustments to non-refundable claims	365 days

Note

The above service standards apply in those situations where a complete claim has been filed and you have responded to any CRA requests for additional information.

What happens during the review process?

Businesses claiming the SR&ED credit are subject to technical and financial reviews by the CRA to ensure that all eligibility and compliance requirements, as set out in the *Income Tax Act*, are met.

If we cannot process your SR&ED claim as filed, we may contact or visit you to review information relating to your claim.

The CRA's technical and financial review staff works as a team to ensure that you get the SR&ED credits to which you are entitled.

The technical reviewer evaluates the work to determine whether it meets the SR&ED eligibility criteria. The financial reviewer looks at the costs associated with your projects to ensure they are eligible SR&ED expenditures. These reviews may involve a site visit to review your documentation, talk to your technical staff who were involved in the SR&ED work, and talk to your financial staff who understand the expenditures being claimed.

All information provided to the CRA technical and financial review staff is held in strictest confidence. Legislative provisions and stringent rules protect the confidentiality of all claimants' records.