

SR&ED cash for private companies

Many startups don't realize that they'll recover ~half of the costs in either SR&ED or R&D tax credit they've already incurred. Others are mystified by the academic prism that Canada Customs and Revenue Agency (CRA) uses to determine eligibility. Most are intimidated by the paperwork involved. This is surely why one quarter of Canada's technology companies do not take advantage of the financial benefits of SR&ED!

Use the [Scientific Research and Experimental Development \(SR&ED\) program](#) to expand your research and development budget! SR&ED / R&D Tax Credit pays ~ 10 times the amount that companies receive through the National Research Council! The federal government pays 3/4 of your SR&ED cheques; the provinces pay the other \$1B of the ~ \$4 Billion that Canadian companies receive annually. SR&ED will improve your balance sheet significantly!

Canadian Controlled Private Corporations recover a significant portion of their research and development costs:

- **68% of salaries;**
- **42% of contract payments, scrap, and equipment lease;**
- **23% of capital equipment used exclusively for R&D.**

R&D Tax Credit Claims must be submitted within an 18-month window after each fiscal period. If your company's fiscal year ends on June 30, then December 31, 2005 is your deadling for filing your 2004 SR&ED claim. **You may be fortunate enough to file two SR&ED claims immediately!** This is more efficient for everyone involved..., you'll receive a government cheque for both fiscal periods at the same time!!! **Two simultaneous SR&ED Claims is the limit.**

CCPCs receive their cheques within ~3-4 months, assuming T2 Corporate Income Tax returns are filed simultaneously. But if you file your T2 and SR&ED / R&D Tax Credit claim separately, you'll probably receive your cheque in ~6-8 months.

Public, and foreign, companies qualify for only ~one-half the size of SR&ED / R&D Tax Credit cheques that CCPCs receive, in the form of tax credits valuable only if your company owes taxes (i.e., when it becomes profitable) , Such "non-refundable" ITCs apply only to income taxes that you owe, so the non-Canadian entity must be profitable. But after a CCPC goes public, it can file for a "stub" fiscal period (less-than-12-months) which finishes one day before going public!

What activities qualify for SR&ED?

If you have been, and will be, doing leading-edge development and/or experiencing significant technical problems, then you will likely qualify for the Research and Development Tax Credit! Only the company that owns the intellectual property can apply. The work must be performed in Canada by Canadians. The critical qualifying technical issue is whether you generated new knowledge to solve problems that were unresolvable using existing knowledge.

Research & Development tax credit eligible activities are:

- experiments and analysis;
- design, analysis, data collection, and research;
- technical support (but not for customers);
- preparing technical documentation for internal use;
- preparing equipment & materials (but not maintenance);
- direct supervision of employees

Marketing and other non-technical activities don't qualify:

- sales, promotion, marketing and advertising
- business plan preparation
- customer support
- user documentation
- reporting to shareholders
- other non-technical functions

Most companies are mystified by the academic prism that *Canada Revenue Agency (CRA)* uses to determine eligibility, and intimidated by the paperwork. Not all salaries, contract payments, leases, or capital expenditures qualify! This is a grey area, particularly in software and IT. Software Research and Development Tax Credit claims present unique challenges to CRA because qualified experts may disagree over whether work constitutes routine application software development.

Together we'll identify the technically-challenging issues that their people faced to develop software and information technologies. We'll then apportion time that your employees and contractors have spent, and will spend in the future, to resolve those technical challenges (referred to as ?SR&ED Projects?), and multiply the compensation that they were paid by the proportion of time that they spent working on their "SR&ED Projects". These are your technical challenges to which your development people devised solutions to discover "*advancements*" in CRA's terminology. We'll describe these in section (C) of your *SR&ED Technical Submission*. To demonstrate that you advanced your technical domain you will need to describe the "KnowledgeBase" existing prior to your systematically investigation of the issues. To understand better, view the [SRED in a Nutshell presentation](#).

SR&ED is the largest source of financial assistance available to Canadian companies! Use our **Templates** so SR&ED becomes easy and reliable, an essential component of cash flow planning.

These percentages are not well known. CRA does not publish them because the underlying calculations are so complex, and many variables are involved. Reduce the sum by 42% of other government financial assistance such as NRC/IRAP, Western Diversification, Canarie, Technology Partnerships Canada or any other government financial assistance.

SR&ED Calculator for most provinces						
Fiscal 2007						
Step 1: Enter compensation paid to employees, contractors, equipment.	Step 2: What portion was spent on SR&ED-eligible activities?		SR&ED-eligible portions	applicable SR&ED % for CCPCs	Amount of SR&ED cheque will be...	
...Salaries shown on T4 slips of employees:						
employee #1	\$65,000	100%	\$65,000	\$105,750	68.5%	\$72,439
employee #2	\$50,000	50%	\$25,000			
employee #3	\$45,000	35%	\$15,750			
...Contractor Fees:						
Contractor A	\$75,000	100%	\$75,000	\$132,500	41.5%	\$54,988
Contractor B	\$60,000	75%	\$45,000			
Contractor C	\$25,000	50%	\$12,500			
Step 3: Amount spent on new computers or other capital equipment used exclusively for tests?				\$25,000	22.6%	\$5,650
SR&ED cheque for fiscal 2007:					\$133,076	
SR&ED cheque for fiscal 2006:					\$118,863	
Total:					\$251,939	
Most innovative technical development qualifies for SR&ED: * experiments and analysis; * design, analysis, data collection, and research; * technical support (not for customers); * internal technical documentation; * hiring; * direct supervision of employees.						
Non-technical activities DO NOT qualify for SR&ED: * sales, marketing, and routine engineering; * business plan preparation; * customer support, preparation of user documentation; * financing + reporting to shareholders.						

>175 SR&ED claims by 70 clients in 7 years

- internet commerce: 25 SR&ED claims.
- multi-player wireless and internet games: 14 SR&ED claims.
- five SR&ED / Research Tax Credit claims by [ActiveState](#), a local success story driven by Dick Hardt, acquired for \$23 million by Sophos, that protects against viruses and spam. Five dozen technical people enhanced Open Source-based cross-platform programming tools used by four million programmers of Perl; PHP; Python; Tcl; XSLT.
- five SR&ED / Research Tax Credit claims by [ecmarket](#) for developing a Collaborative Community Trading Platform that enables SME Manufacturers to exchange goods and services, collaborate on business opportunities, and to share information by applying Web Services, WSDL, SOAP, XML, XML Schema, P2P and UDDI.
- three SR&ED / Research Tax Credit claims by [Black Box Games](#) before its ~100 employees were acquired by [Electronic Arts](#) in 2002. BBG developed games for Microsoft's Xbox, Sony's Playstation2, and Nintendo's GameCube.
- three SR&ED / Research Tax Credit claims by [Next Level Games](#), the successor to Black Box Games, a small group of maverics who refused to join Electronic Arts. Four years later it has grown to dozens of designers and animators by applying SR&ED!

- three SR&ED / Research Tax Credit claims by [Air Games](#), the fastest growing global player in the development and distribution of cutting edge multiplayer mobile entertainment and community applications.
- one SR&ED / Research Tax Credit claim by [MailChannels](#), with a new email delivery technology that improves the accuracy of email security.
- one SR&ED / Research Tax Credit claims by [iCell Therapeutics](#), a biopharmaceutical company developing targeted treatments to address certain types of cancer and cardiovascular diseases such as atherosclerosis, restenosis, and aneurisms .
- two SR&ED / Research Tax Credit claims by [Whistler.com](#), for software that processes internet travel reservations throughout the Resort.
- two SR&ED / Research Tax Credit claims by [DealerVu](#), the first Windows-based software product designed specifically for dealership management built using Microsoft .NET Framework.
- two SR&ED / Research Tax Credit claims by [Techniscope](#), which applies Geographic Information Systems environment, forestry, oil, natural gas, and mining industries.
- three SR&ED / Research Tax Credit claims by [TAG Aerospace](#), an aircraft design, engineering and certification services company.
- four SR&ED / Research Tax Credit claims by [Naviform](#), a naval architect that incorporates hydrodynamic and structural engineering into weight-optimized designs with low-wake hulls and wave-piercing bows.
- three SR&ED / Research Tax Credit claims by [PowerDisc](#) which has combined a proprietary fuel cell, electric motor, and dynamically-adjustable transmission to offer an emission-free alternative to Internal Combustion Engines.
- three SR&ED / Research Tax Credit claims by [Viewscape3D](#)'s computer-generated images aid foresters and government regulators to display in 3D impact on the landscape of proposed logging operations from different viewpoints, and species-specific forest cover, density, and height.
- three SR&ED / Research Tax Credit claims by [HR Online](#) ?s smart suite of comprehensive integrated web enabled performance development solutions mines human resources data to reveal trends, patterns within organizations.
- three SR&ED / Research Tax Credit claims by [vLinx](#), an internet supply chain management software that links suppliers, contractors and logistics to freight-forwarders, shipping agents, customs brokers, insurance brokers, warehousing, and financial institutions.
- wireless messaging: 5 SR&ED claims.
- unified voice messaging: 3 SR&ED claims.
- internet firewalls: 3 SR&ED claims.
- routers which manage internet traffic: 3 SR&ED claims.
- multimedia internet streaming: 3 SR&ED / Research Tax Credit claims.
- legacy mainframe communications: 3 SR&ED / Research Tax Credit claims.
- datamining: 7 SR&ED / Research Tax Credit claims.
- GIS mapping: 5 SR&ED / Research Tax Credit claims.
- fire suppression: 2 SR&ED / Research Tax Credit claims.
- torque wrench: 2 SR&ED / Research Tax Credit claims.
- building coatings: 3 SR&ED / Research Tax Credit claims.
- avionics: 2 SR&ED / Research Tax Credit claims.
- acoustics: 2 SR&ED / Research Tax Credit claims.
- juice manufacturing: 4 SR&ED / Research Tax Credit claims.
- soap: 2 SR&ED / Research Tax Credit claims.
- medical devices: 2 SR&ED / Research Tax Credit claims.
- steel fabrication: 2 SR&ED / Research Tax Credit claims.
- criminal profiling: 5 SR&ED / Research Tax Credit claims.

- genetics: 2 SR&ED / Research Tax Credit claims.
- several SR&ED / Research Tax Credit claims by a Nasdaq-100 public company that had been claiming SR&ED for a decade but unaware that costs of an entire division could qualify for SR&ED! It received a \$multi-million windfall by retroactively claiming prior expenses, clearly demonstrating how applying SR&ED rules to unique circumstances of each company will create value for you too!
- and more every month! Why not let me quarterback your SR&ED claims too!
- [CCRA](#)! I represented CCRA twice as an "expert witness" in legal proceedings. Impartial, my opinions are objective. CCRA's reviewers have acknowledged I submit the highest quality SR&ED claims they receive!

Former Science Consultant to CRA

Only a SR&ED Consultant specialist has time to follow CRA's legislative changes and SR&ED's internal policies, and to know how they affect you. [SR&ED calculations](#) are complex; knowing what information to include and how to justify it requires specialized knowledge.

We assemble all the information CRA requires and present it in the format that CRA expects. Over 50 of BC's pre-eminent technology start-ups rely on our advice and experience.

Our clients develop a complete understanding of how to prepare successful SR&ED claims. We quarterback their entire SR&ED application process as SR&ED Consultants so they receive their SR&ED cheques quickly (usually within 3-4 months). We also explain the importance of having proper documentation in the event of a detailed review by CRA. Understanding CRA's perspective and requirements is critical. Begin with "*What's difficult about your work?*" and "*What have you learned?*".

Make SR&ED an annuity! You too can confidently build SR&ED into your cash flow planning by using our Templates as the foundation of a simple internal time-tracking system that meets CRA's requirements. It only takes one hour per person each month. We help optimize your SR&ED process so you know how much money to expect from SR&ED every year - in advance!

I spent four years as a SR&ED Consultant at CRA reviewing hundreds of SR&ED projects in software, hardware, electronics, telecommunications, games, and multimedia!

A former educator at SFU, UVic, and Okanagan University College, I delight in revealing how SR&ED can positively impact my clients' fortunes. Please join them and I'll impart my knowledge and experience to you! It's a team effort, so we'll exchange drafts in a process I'll describe in a SR&ED Agreement customized to reflect your circumstances. To get started, I need to know the fiscal year end of your company and confirm that it is a Canadian Controlled Private Corporation (CCPC). Then we can confidently determine when your SR&ED cheque will arrive.

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