

# SR&ED Scientific Research & Experimental Development Tax Credits

**Practitioner workshop  
September 22, 2014**

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## Part 1

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## I) New Canada Revenue Agency Procedures

New form T661(13) to reflect 2013 changes

- Suggested project reporting format
- Report formats to address new CRA questions

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## New form T661(13) to reflect 2013 changes

CRA OLD FORMAT (up to 2013)		CRA NEW FORMAT (after 2013)	
T661 Box 2	3 Criteria	T661 Box 2	3 Criteria
240	Advancement (Deliberate): "What technological advance merits were you trying to achieve?"	n/a	replaced by box 245 below
242	Technological Uncertainty (Deliberate): What technological obstacles did you have to overcome to achieve the technological advancements described in Line 240?	242	Technological Uncertainty - Standard Practice (Deliberate): "What scientific or technological uncertainties did you attempt to overcome – uncertainties that could not be resolved using standard practice?"
244	Activities (Deliberate): What work did you perform in the tax year to overcome the scientific or technological uncertainties described in Line 242? (Summarize the systematic investigation or search)	244	Activities (Deliberate): What work did you perform in the tax year to overcome the scientific or technological uncertainties described in Line 242? (Summarize the systematic investigation or search)
n/a	Formerly box 240 above	245	Advancement (Deliberate): What scientific or technological advancements did you achieve as a result of the work described in Line 244?

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## 3 step documentation process:

"Technological Advancement" requires 3 key steps

### STEPS

1) DEFINE PRIOR ART

2) CORRELATE prior art to VARIABLES for experiments

3) ANALYSIS of & CONCLUSIONS on VARIABLES

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## Notable quote:

**"It's tough when markets change and your people within the company don't."**

*- Harvard Business Review*

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RDBASE.NET International SR&ED template		
<b>I</b>	<b>OBJECTIVE BEYOND STANDARD PRACTICE</b>	<b>Recommended documentation</b>
i)	State of Existing technology	State benchmarking: <i>tailorhook &amp; context</i>
ii)	Objective(s)	Top 5 most viable "Objectives"
<b>II</b>	<b>TECHNOLOGICAL UNCERTAINTIES</b>	<b>GOALS move to Government (CRA, IRS, patent office)</b>
		Quantifiable Objectives beyond known links
		Formulate "best estimate" to test hypothesis
<b>III</b>	<b>EXPERIMENTAL ACTIVITY</b>	Defined by tax year <sup>1</sup>
i)	Experimentation method	Number of experiments tested & how?
ii)	Results	Outcomes to "Objectives"
iii)	Conclusions	Conclude back for Conclusions
		"New knowledge" illustrates "Technological Advancement"

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**Notable quote:**

**"It is not how many ideas you have. It's how many you make happen."**

**- Accenture**

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CRA NEW FORMAT (after 2013)		HOW TO PROVIDE INFO.
<b>T661 Box #</b>	<b>3 Criteria</b>	<b>RDBASE SR&amp;ED project - 5 Steps</b>
n/a	replaced by box 246 below	
242	<b>Technological Uncertainty &gt; Standard Practice (50 lines):</b> "What scientific or technological uncertainties did you attempt to overcome – <b>uncertainties that could not be removed using standard practice?</b> "	Ib) Define Standard Practice (39) IIb) Objectives > Standard Practice & II: Technological uncertainties to research
244	<b>Activities (100 lines):</b> What work did you perform in the tax year to overcome the scientific or technological uncertainties described in Line 242? (Summarize the systematic investigation or search)	III ii) List selected research logs to show work done "systematically"
246	<b>Advancement (50 lines):</b> What scientific or technological advancements <b>did you achieve</b> as a result of the work described in Line 244?	III iii & iii): Display results & conclusions. The "Technological Advancement" = advancements if all other criteria met.

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**Notable quote:**

**"Innovation is the ability to convert ideas into invoices."**

**- L. Duncan**

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## New CRA RFI procedures & recommendations to address

- The most notable of the "standard" questions across the country fall into 2 main categories:
- 1) Technical documentation
  - a. Evidence of experiments
  - b. Due diligence to define standard practice
- 2) Financial info (detailed timesheet correlation)

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## 1) Technical documentation

### a) Evidence of "relevant" experimentation

The CRA requests, "Please send ...

- up to maximum of five (5) letter-sized (8.5" x 11") pages for each project claimed
- which you feel best demonstrates that the work meets the definition of SR&ED in Subsection 248(1) of the Income Tax Act."

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## 1) Technical documentation

### b) Evidence “due diligence” to define standard practices

The CRA requests, “...copies of the **contemporaneous evidence** that:

- recorded your initial **due diligence** activities and that shows that available technology could not overcome the technological problem or obstacle that you faced;
- recorded **the plan** you subsequently devised to overcome the technological problem or obstacle;
- Preserved the **new technological knowledge** gained by the company.”

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### Notable quote:

“The best ideas lose their owners and take on lives of their own.”

- N. Bushnell

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## Recommendations to address RFI procedures on Standard practice

**I PROJECT OBJECTIVE BEYOND STANDARD PRACTICE:**

*GOAL is to prove to Government (CRA, IRS, etc.): Technology limits of “readily available” information to someone “skilled in the art.”*

i) State of Existing technology: Benchmarking methods & sources	Number (if) of	Internet sites
i Internet / Google Searches		internet sites
ii Articles		articles
iii Patent searches		patents
iv Competitive methods		products / processes
v In-house technologies		products / processes
vi Potential components		products
vii Queries to experts		responses
viii Other		

**ii) Objectives:**

Performance benchmarks (top 5)*	Quantifiable Objectives beyond known limits
Benchmark 1	Benchmark 2
i Existing benchmark	
ii Units of measure	
iii Performance objective	
iv Result (fill below)*	

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## Prior Art – search example (7 slides)

STEPS TO ADDRESS "TECHNOLOGICAL ADVANCEMENT" CRITERIA						STEPS	
FIELD Basis determination - Key Criteria Summary							
101 Machinery - Improve Compounding Equipment		Objective 1: Temperature variance: 2 Deg C		Output: 120 output/minute		1) UPLOAD PRIOR ART - for the Machine, Compounding	
102 Machinery - Improve Compounding Equipment		Objective 2: Output: 120 output/minute		Output: 120 output/minute		2) CORRELATE prior art to VARIABLES for experiment	
103 Machinery - Improve Compounding Equipment		Objective 3: Shear: 12 times/inch		Output: 12 times/inch			
104 Machinery - Improve Compounding Equipment		Objective 4: Improve Dispensivity: 1 mm		Output: 1 mm			
105 Machinery - Improve Compounding Equipment		Objective 5: Maximum cost increase: 15 %		Output: 15 %			
106 Machinery - Improve Compounding Equipment		Objective 6: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
107 Machinery - Improve Compounding Equipment		Objective 7: Temperature variance: 2 Deg C		Output: 120 output/minute			
108 Machinery - Improve Compounding Equipment		Objective 8: Output: 120 output/minute		Output: 120 output/minute			
109 Machinery - Improve Compounding Equipment		Objective 9: Shear: 12 times/inch		Output: 12 times/inch			
110 Machinery - Improve Compounding Equipment		Objective 10: Improve Dispensivity: 1 mm		Output: 1 mm			
111 Machinery - Improve Compounding Equipment		Objective 11: Maximum cost increase: 15 %		Output: 15 %			
112 Machinery - Improve Compounding Equipment		Objective 12: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
113 Machinery - Improve Compounding Equipment		Objective 13: Temperature variance: 2 Deg C		Output: 120 output/minute			
114 Machinery - Improve Compounding Equipment		Objective 14: Output: 120 output/minute		Output: 120 output/minute			
115 Machinery - Improve Compounding Equipment		Objective 15: Shear: 12 times/inch		Output: 12 times/inch			
116 Machinery - Improve Compounding Equipment		Objective 16: Improve Dispensivity: 1 mm		Output: 1 mm			
117 Machinery - Improve Compounding Equipment		Objective 17: Maximum cost increase: 15 %		Output: 15 %			
118 Machinery - Improve Compounding Equipment		Objective 18: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
119 Machinery - Improve Compounding Equipment		Objective 19: Temperature variance: 2 Deg C		Output: 120 output/minute			
120 Machinery - Improve Compounding Equipment		Objective 20: Output: 120 output/minute		Output: 120 output/minute			
121 Machinery - Improve Compounding Equipment		Objective 21: Shear: 12 times/inch		Output: 12 times/inch			
122 Machinery - Improve Compounding Equipment		Objective 22: Improve Dispensivity: 1 mm		Output: 1 mm			
123 Machinery - Improve Compounding Equipment		Objective 23: Maximum cost increase: 15 %		Output: 15 %			
124 Machinery - Improve Compounding Equipment		Objective 24: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
125 Machinery - Improve Compounding Equipment		Objective 25: Temperature variance: 2 Deg C		Output: 120 output/minute			
126 Machinery - Improve Compounding Equipment		Objective 26: Output: 120 output/minute		Output: 120 output/minute			
127 Machinery - Improve Compounding Equipment		Objective 27: Shear: 12 times/inch		Output: 12 times/inch			
128 Machinery - Improve Compounding Equipment		Objective 28: Improve Dispensivity: 1 mm		Output: 1 mm			
129 Machinery - Improve Compounding Equipment		Objective 29: Maximum cost increase: 15 %		Output: 15 %			
130 Machinery - Improve Compounding Equipment		Objective 30: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
131 Machinery - Improve Compounding Equipment		Objective 31: Temperature variance: 2 Deg C		Output: 120 output/minute			
132 Machinery - Improve Compounding Equipment		Objective 32: Output: 120 output/minute		Output: 120 output/minute			
133 Machinery - Improve Compounding Equipment		Objective 33: Shear: 12 times/inch		Output: 12 times/inch			
134 Machinery - Improve Compounding Equipment		Objective 34: Improve Dispensivity: 1 mm		Output: 1 mm			
135 Machinery - Improve Compounding Equipment		Objective 35: Maximum cost increase: 15 %		Output: 15 %			
136 Machinery - Improve Compounding Equipment		Objective 36: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
137 Machinery - Improve Compounding Equipment		Objective 37: Temperature variance: 2 Deg C		Output: 120 output/minute			
138 Machinery - Improve Compounding Equipment		Objective 38: Output: 120 output/minute		Output: 120 output/minute			
139 Machinery - Improve Compounding Equipment		Objective 39: Shear: 12 times/inch		Output: 12 times/inch			
140 Machinery - Improve Compounding Equipment		Objective 40: Improve Dispensivity: 1 mm		Output: 1 mm			
141 Machinery - Improve Compounding Equipment		Objective 41: Maximum cost increase: 15 %		Output: 15 %			
142 Machinery - Improve Compounding Equipment		Objective 42: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
143 Machinery - Improve Compounding Equipment		Objective 43: Temperature variance: 2 Deg C		Output: 120 output/minute			
144 Machinery - Improve Compounding Equipment		Objective 44: Output: 120 output/minute		Output: 120 output/minute			
145 Machinery - Improve Compounding Equipment		Objective 45: Shear: 12 times/inch		Output: 12 times/inch			
146 Machinery - Improve Compounding Equipment		Objective 46: Improve Dispensivity: 1 mm		Output: 1 mm			
147 Machinery - Improve Compounding Equipment		Objective 47: Maximum cost increase: 15 %		Output: 15 %			
148 Machinery - Improve Compounding Equipment		Objective 48: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
149 Machinery - Improve Compounding Equipment		Objective 49: Temperature variance: 2 Deg C		Output: 120 output/minute			
150 Machinery - Improve Compounding Equipment		Objective 50: Output: 120 output/minute		Output: 120 output/minute			
151 Machinery - Improve Compounding Equipment		Objective 51: Shear: 12 times/inch		Output: 12 times/inch			
152 Machinery - Improve Compounding Equipment		Objective 52: Improve Dispensivity: 1 mm		Output: 1 mm			
153 Machinery - Improve Compounding Equipment		Objective 53: Maximum cost increase: 15 %		Output: 15 %			
154 Machinery - Improve Compounding Equipment		Objective 54: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
155 Machinery - Improve Compounding Equipment		Objective 55: Temperature variance: 2 Deg C		Output: 120 output/minute			
156 Machinery - Improve Compounding Equipment		Objective 56: Output: 120 output/minute		Output: 120 output/minute			
157 Machinery - Improve Compounding Equipment		Objective 57: Shear: 12 times/inch		Output: 12 times/inch			
158 Machinery - Improve Compounding Equipment		Objective 58: Improve Dispensivity: 1 mm		Output: 1 mm			
159 Machinery - Improve Compounding Equipment		Objective 59: Maximum cost increase: 15 %		Output: 15 %			
160 Machinery - Improve Compounding Equipment		Objective 60: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
161 Machinery - Improve Compounding Equipment		Objective 61: Temperature variance: 2 Deg C		Output: 120 output/minute			
162 Machinery - Improve Compounding Equipment		Objective 62: Output: 120 output/minute		Output: 120 output/minute			
163 Machinery - Improve Compounding Equipment		Objective 63: Shear: 12 times/inch		Output: 12 times/inch			
164 Machinery - Improve Compounding Equipment		Objective 64: Improve Dispensivity: 1 mm		Output: 1 mm			
165 Machinery - Improve Compounding Equipment		Objective 65: Maximum cost increase: 15 %		Output: 15 %			
166 Machinery - Improve Compounding Equipment		Objective 66: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
167 Machinery - Improve Compounding Equipment		Objective 67: Temperature variance: 2 Deg C		Output: 120 output/minute			
168 Machinery - Improve Compounding Equipment		Objective 68: Output: 120 output/minute		Output: 120 output/minute			
169 Machinery - Improve Compounding Equipment		Objective 69: Shear: 12 times/inch		Output: 12 times/inch			
170 Machinery - Improve Compounding Equipment		Objective 70: Improve Dispensivity: 1 mm		Output: 1 mm			
171 Machinery - Improve Compounding Equipment		Objective 71: Maximum cost increase: 15 %		Output: 15 %			
172 Machinery - Improve Compounding Equipment		Objective 72: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
173 Machinery - Improve Compounding Equipment		Objective 73: Temperature variance: 2 Deg C		Output: 120 output/minute			
174 Machinery - Improve Compounding Equipment		Objective 74: Output: 120 output/minute		Output: 120 output/minute			
175 Machinery - Improve Compounding Equipment		Objective 75: Shear: 12 times/inch		Output: 12 times/inch			
176 Machinery - Improve Compounding Equipment		Objective 76: Improve Dispensivity: 1 mm		Output: 1 mm			
177 Machinery - Improve Compounding Equipment		Objective 77: Maximum cost increase: 15 %		Output: 15 %			
178 Machinery - Improve Compounding Equipment		Objective 78: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
179 Machinery - Improve Compounding Equipment		Objective 79: Temperature variance: 2 Deg C		Output: 120 output/minute			
180 Machinery - Improve Compounding Equipment		Objective 80: Output: 120 output/minute		Output: 120 output/minute			
181 Machinery - Improve Compounding Equipment		Objective 81: Shear: 12 times/inch		Output: 12 times/inch			
182 Machinery - Improve Compounding Equipment		Objective 82: Improve Dispensivity: 1 mm		Output: 1 mm			
183 Machinery - Improve Compounding Equipment		Objective 83: Maximum cost increase: 15 %		Output: 15 %			
184 Machinery - Improve Compounding Equipment		Objective 84: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
185 Machinery - Improve Compounding Equipment		Objective 85: Temperature variance: 2 Deg C		Output: 120 output/minute			
186 Machinery - Improve Compounding Equipment		Objective 86: Output: 120 output/minute		Output: 120 output/minute			
187 Machinery - Improve Compounding Equipment		Objective 87: Shear: 12 times/inch		Output: 12 times/inch			
188 Machinery - Improve Compounding Equipment		Objective 88: Improve Dispensivity: 1 mm		Output: 1 mm			
189 Machinery - Improve Compounding Equipment		Objective 89: Maximum cost increase: 15 %		Output: 15 %			
190 Machinery - Improve Compounding Equipment		Objective 90: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
191 Machinery - Improve Compounding Equipment		Objective 91: Temperature variance: 2 Deg C		Output: 120 output/minute			
192 Machinery - Improve Compounding Equipment		Objective 92: Output: 120 output/minute		Output: 120 output/minute			
193 Machinery - Improve Compounding Equipment		Objective 93: Shear: 12 times/inch		Output: 12 times/inch			
194 Machinery - Improve Compounding Equipment		Objective 94: Improve Dispensivity: 1 mm		Output: 1 mm			
195 Machinery - Improve Compounding Equipment		Objective 95: Maximum cost increase: 15 %		Output: 15 %			
196 Machinery - Improve Compounding Equipment		Objective 96: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
197 Machinery - Improve Compounding Equipment		Objective 97: Temperature variance: 2 Deg C		Output: 120 output/minute			
198 Machinery - Improve Compounding Equipment		Objective 98: Output: 120 output/minute		Output: 120 output/minute			
199 Machinery - Improve Compounding Equipment		Objective 99: Shear: 12 times/inch		Output: 12 times/inch			
200 Machinery - Improve Compounding Equipment		Objective 100: Improve Dispensivity: 1 mm		Output: 1 mm			
201 Machinery - Improve Compounding Equipment		Objective 101: Maximum cost increase: 15 %		Output: 15 %			
202 Machinery - Improve Compounding Equipment		Objective 102: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
203 Machinery - Improve Compounding Equipment		Objective 103: Temperature variance: 2 Deg C		Output: 120 output/minute			
204 Machinery - Improve Compounding Equipment		Objective 104: Output: 120 output/minute		Output: 120 output/minute			
205 Machinery - Improve Compounding Equipment		Objective 105: Shear: 12 times/inch		Output: 12 times/inch			
206 Machinery - Improve Compounding Equipment		Objective 106: Improve Dispensivity: 1 mm		Output: 1 mm			
207 Machinery - Improve Compounding Equipment		Objective 107: Maximum cost increase: 15 %		Output: 15 %			
208 Machinery - Improve Compounding Equipment		Objective 108: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
209 Machinery - Improve Compounding Equipment		Objective 109: Temperature variance: 2 Deg C		Output: 120 output/minute			
210 Machinery - Improve Compounding Equipment		Objective 110: Output: 120 output/minute		Output: 120 output/minute			
211 Machinery - Improve Compounding Equipment		Objective 111: Shear: 12 times/inch		Output: 12 times/inch			
212 Machinery - Improve Compounding Equipment		Objective 112: Improve Dispensivity: 1 mm		Output: 1 mm			
213 Machinery - Improve Compounding Equipment		Objective 113: Maximum cost increase: 15 %		Output: 15 %			
214 Machinery - Improve Compounding Equipment		Objective 114: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
215 Machinery - Improve Compounding Equipment		Objective 115: Temperature variance: 2 Deg C		Output: 120 output/minute			
216 Machinery - Improve Compounding Equipment		Objective 116: Output: 120 output/minute		Output: 120 output/minute			
217 Machinery - Improve Compounding Equipment		Objective 117: Shear: 12 times/inch		Output: 12 times/inch			
218 Machinery - Improve Compounding Equipment		Objective 118: Improve Dispensivity: 1 mm		Output: 1 mm			
219 Machinery - Improve Compounding Equipment		Objective 119: Maximum cost increase: 15 %		Output: 15 %			
220 Machinery - Improve Compounding Equipment		Objective 120: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
221 Machinery - Improve Compounding Equipment		Objective 121: Temperature variance: 2 Deg C		Output: 120 output/minute			
222 Machinery - Improve Compounding Equipment		Objective 122: Output: 120 output/minute		Output: 120 output/minute			
223 Machinery - Improve Compounding Equipment		Objective 123: Shear: 12 times/inch		Output: 12 times/inch			
224 Machinery - Improve Compounding Equipment		Objective 124: Improve Dispensivity: 1 mm		Output: 1 mm			
225 Machinery - Improve Compounding Equipment		Objective 125: Maximum cost increase: 15 %		Output: 15 %			
226 Machinery - Improve Compounding Equipment		Objective 126: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
227 Machinery - Improve Compounding Equipment		Objective 127: Temperature variance: 2 Deg C		Output: 120 output/minute			
228 Machinery - Improve Compounding Equipment		Objective 128: Output: 120 output/minute		Output: 120 output/minute			
229 Machinery - Improve Compounding Equipment		Objective 129: Shear: 12 times/inch		Output: 12 times/inch			
230 Machinery - Improve Compounding Equipment		Objective 130: Improve Dispensivity: 1 mm		Output: 1 mm			
231 Machinery - Improve Compounding Equipment		Objective 131: Maximum cost increase: 15 %		Output: 15 %			
232 Machinery - Improve Compounding Equipment		Objective 132: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
233 Machinery - Improve Compounding Equipment		Objective 133: Temperature variance: 2 Deg C		Output: 120 output/minute			
234 Machinery - Improve Compounding Equipment		Objective 134: Output: 120 output/minute		Output: 120 output/minute			
235 Machinery - Improve Compounding Equipment		Objective 135: Shear: 12 times/inch		Output: 12 times/inch			
236 Machinery - Improve Compounding Equipment		Objective 136: Improve Dispensivity: 1 mm		Output: 1 mm			
237 Machinery - Improve Compounding Equipment		Objective 137: Maximum cost increase: 15 %		Output: 15 %			
238 Machinery - Improve Compounding Equipment		Objective 138: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
239 Machinery - Improve Compounding Equipment		Objective 139: Temperature variance: 2 Deg C		Output: 120 output/minute			
240 Machinery - Improve Compounding Equipment		Objective 140: Output: 120 output/minute		Output: 120 output/minute			
241 Machinery - Improve Compounding Equipment		Objective 141: Shear: 12 times/inch		Output: 12 times/inch			
242 Machinery - Improve Compounding Equipment		Objective 142: Improve Dispensivity: 1 mm		Output: 1 mm			
243 Machinery - Improve Compounding Equipment		Objective 143: Maximum cost increase: 15 %		Output: 15 %			
244 Machinery - Improve Compounding Equipment		Objective 144: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
245 Machinery - Improve Compounding Equipment		Objective 145: Temperature variance: 2 Deg C		Output: 120 output/minute			
246 Machinery - Improve Compounding Equipment		Objective 146: Output: 120 output/minute		Output: 120 output/minute			
247 Machinery - Improve Compounding Equipment		Objective 147: Shear: 12 times/inch		Output: 12 times/inch			
248 Machinery - Improve Compounding Equipment		Objective 148: Improve Dispensivity: 1 mm		Output: 1 mm			
249 Machinery - Improve Compounding Equipment		Objective 149: Maximum cost increase: 15 %		Output: 15 %			
250 Machinery - Improve Compounding Equipment		Objective 150: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
251 Machinery - Improve Compounding Equipment		Objective 151: Temperature variance: 2 Deg C		Output: 120 output/minute			
252 Machinery - Improve Compounding Equipment		Objective 152: Output: 120 output/minute		Output: 120 output/minute			
253 Machinery - Improve Compounding Equipment		Objective 153: Shear: 12 times/inch		Output: 12 times/inch			
254 Machinery - Improve Compounding Equipment		Objective 154: Improve Dispensivity: 1 mm		Output: 1 mm			
255 Machinery - Improve Compounding Equipment		Objective 155: Maximum cost increase: 15 %		Output: 15 %			
256 Machinery - Improve Compounding Equipment		Objective 156: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
257 Machinery - Improve Compounding Equipment		Objective 157: Temperature variance: 2 Deg C		Output: 120 output/minute			
258 Machinery - Improve Compounding Equipment		Objective 158: Output: 120 output/minute		Output: 120 output/minute			
259 Machinery - Improve Compounding Equipment		Objective 159: Shear: 12 times/inch		Output: 12 times/inch			
260 Machinery - Improve Compounding Equipment		Objective 160: Improve Dispensivity: 1 mm		Output: 1 mm			
261 Machinery - Improve Compounding Equipment		Objective 161: Maximum cost increase: 15 %		Output: 15 %			
262 Machinery - Improve Compounding Equipment		Objective 162: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
263 Machinery - Improve Compounding Equipment		Objective 163: Temperature variance: 2 Deg C		Output: 120 output/minute			
264 Machinery - Improve Compounding Equipment		Objective 164: Output: 120 output/minute		Output: 120 output/minute			
265 Machinery - Improve Compounding Equipment		Objective 165: Shear: 12 times/inch		Output: 12 times/inch			
266 Machinery - Improve Compounding Equipment		Objective 166: Improve Dispensivity: 1 mm		Output: 1 mm			
267 Machinery - Improve Compounding Equipment		Objective 167: Maximum cost increase: 15 %		Output: 15 %			
268 Machinery - Improve Compounding Equipment		Objective 168: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
269 Machinery - Improve Compounding Equipment		Objective 169: Temperature variance: 2 Deg C		Output: 120 output/minute			
270 Machinery - Improve Compounding Equipment		Objective 170: Output: 120 output/minute		Output: 120 output/minute			
271 Machinery - Improve Compounding Equipment		Objective 171: Shear: 12 times/inch		Output: 12 times/inch			
272 Machinery - Improve Compounding Equipment		Objective 172: Improve Dispensivity: 1 mm		Output: 1 mm			
273 Machinery - Improve Compounding Equipment		Objective 173: Maximum cost increase: 15 %		Output: 15 %			
274 Machinery - Improve Compounding Equipment		Objective 174: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
275 Machinery - Improve Compounding Equipment		Objective 175: Temperature variance: 2 Deg C		Output: 120 output/minute			
276 Machinery - Improve Compounding Equipment		Objective 176: Output: 120 output/minute		Output: 120 output/minute			
277 Machinery - Improve Compounding Equipment		Objective 177: Shear: 12 times/inch		Output: 12 times/inch			
278 Machinery - Improve Compounding Equipment		Objective 178: Improve Dispensivity: 1 mm		Output: 1 mm			
279 Machinery - Improve Compounding Equipment		Objective 179: Maximum cost increase: 15 %		Output: 15 %			
280 Machinery - Improve Compounding Equipment		Objective 180: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
281 Machinery - Improve Compounding Equipment		Objective 181: Temperature variance: 2 Deg C		Output: 120 output/minute			
282 Machinery - Improve Compounding Equipment		Objective 182: Output: 120 output/minute		Output: 120 output/minute			
283 Machinery - Improve Compounding Equipment		Objective 183: Shear: 12 times/inch		Output: 12 times/inch			
284 Machinery - Improve Compounding Equipment		Objective 184: Improve Dispensivity: 1 mm		Output: 1 mm			
285 Machinery - Improve Compounding Equipment		Objective 185: Maximum cost increase: 15 %		Output: 15 %			
286 Machinery - Improve Compounding Equipment		Objective 186: Device locations, optimal measurement devices, vibration - locations, intensity, duration					
287 Machinery - Improve Compounding Equipment		Objective 187: Temperature variance: 2 Deg C		Output: 120 output/minute			
288 Machinery - Improve Compounding Equipment		Objective 188: Output: 120 output/minute		Output: 120 output/minute			
289 Machinery - Improve Compounding Equipment		Objective 189: Shear: 12 times/inch		Output: 12 times/inch			
290 Machinery - Improve Compounding Equipment		Objective 190: Improve Dispensivity: 1 mm		Output: 1 mm			
291 Machinery - Improve Compounding Equipment		Objective 191: Maximum cost increase: 1					

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### Notable quote:

“Small opportunities are often the beginning of great enterprises.”

- Demosthenes

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## Steps 1&2 – Objectives & Variables for search

1101 Machinery - Improve Compounding Equipment	Objectives: Temperature variance: 2 Deg C
Benchmarks: Internet searches: 33	Output: 120 output/minute
Patent searches: 2 patents	Shear: 12 times/inch
Competitive products or processes: 14	Improve Dispensivity: 1 mm
Similar prior in-house technologies: 8 products /	Maximum cost increase: 15 %
Potential components: 6 products	
Queries to experts: 2 responses	
Uncertainty: 1 - Temperature Control	Key Variables: device locations, optimal measurement devices, vibration - locations, intensity, duration

### RDBASE - Prior Art Search Example

X = designate as term to search on patent databases

Project name	TO/FOR	Objectives	BY	Key variables (to achieve objectives)
X Improve compounding	X	Temperature variance		optimal measurement devices
		Output		device locations
		Shear		X vibration - locations, intensity, duration
		Dispensivity		
		Cost		

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## Recommended timesheet details to address RFI procedures

**Recommended Employee time detail for SR&ED** (record for each project/each year)

Employee details			Linking work to SR&ED				SR&ED wages	
First Name	Last Name	Hours Worked	Type of work	Variables associated	Comments	Location	hourly \$ rate	SR&ED \$
			1) Design 2) Testing 3) Programming 4) Supervision	<i>OPTIONAL - Link to the variables in the project</i>	<i>OPTIONAL - should be completed by the more senior people if possible</i>	Country + Province or State		
ALREADY EXISTS most systems			This information is MISSING in most time reporting systems					Complete @ yr
NEED TOTALS BY STATE/PROVINCE								\$

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## Recommendations

- Ultimately each employee should be able to identify how his or her
- “design or testing” work was
- “necessary to resolve”
- one or more of the stated “uncertainties.”

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## New energy sector R&D project examples from Australia

July 2013 Australian government released 6 R&D project examples for Energy Industry

- Dye sensitive solar cells
- Battery life
- Wind wake (wind farm software)
- Solar capture
- Energee (microalgae use)
- Supplygrid (smart meter)

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## Notable quote:

“The key to success is for you to make a habit throughout your life of doing the things you fear.”

- Vincent Van Gogh

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They also have examples for other industries including:

- Agrifood
- Biotech
- ICT (Information & communications)
- Manufacturing &
- Built Environments (construction)

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## Relevance of foreign examples

In the author's opinion these examples are a useful source of ideas since:

- The Canadian & Australian definitions of eligible SR&ED work are the same
- These examples appear more complete than CRA's 10 new examples which illustrate only specific concepts instead of entire project descriptions.

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### Notable quote:

**“The reasonable man adapts himself to the world;  
the unreasonable one persists in trying to  
adapt the world to himself.**

**Therefore all progress depends on the  
unreasonable man.”**

**- George Bernard Shaw**

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### Notable quote:

**“The real problem is not whether  
machines think but whether men do.”**

**- B. F. Skinner**

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## **I) Recent SR&ED tax cases & related issue(s)**

- Fio – CRA use of evidence during TCC Appeal - WIN
- Laboratoire du-var Inc. – documenting owners time for SR&ED - LOSS
- Coveley– wage accruals & ABILs – PARTIAL LOSS – many lessons
- Airmax (from 2013 – revisited)
  - Issue 2) informal appeal \$12K limit / result in year

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## **Fio – CRA use of evidence during TCC Appeal - WIN**

- **FACTS/ISSUE:** CRA used information obtained from the court to further reassess the appellant (Fio)
- **WIN/LOSE:** WIN - costs of \$25,000
- **RULING /RATIONALE:** “I cannot accept argument that provides more favourable treatment to one of the parties. The Respondent (CRA) cannot use the Discovery Documents in any other proceeding before this Court or any other court . ”
- **IMPLICATIONS:** shows confusion Objection (ITA section 165) / Appeals (section 169)
- **SIGNIFICANCE:** Moderate

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## **Laboratoire du-var Inc. – documenting owners time - LOSS**

- **ISSUE:** History of successful claims claimant & spouse – reduced to 25% & 0% for 2005 & 2006.
- **WIN/LOSE:** LOSE - The appellant insisted they should have considered the prior rulings
- **RULING /RATIONALE:** “A direct relationship between the various components and the claim submitted is required and must be established on a balance of probabilities.”
- **IMPLICATIONS:** Need real time documentation
- **SIGNIFICANCE:** Moderate

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## Coveley– wage accruals & ABILs – PARTIAL LOSS – many lessons

### FACTS:

- Mr. Coveley holds mechanical & electrical engineering degrees. He was the chief technology officer & an employee of cStar. Mr. Coveley is NOT a shareholder of cStar.
- Mrs. Coveley is the sole shareholder, president and chief executive officer of cStar. She is also an employee of cStar.
- Starting in 1998, the appellants made loans to cStar comprising of their unpaid remuneration, cash advances and corporate expenses
- In 2006 each claimed ("ABIL") in their income tax returns

ISSUE: Are the appellants entitled to deduct an ABIL?

WIN/LOSE: Mrs. - WIN / Mr. LOSS

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## Coveley– wage accruals & ABILs

- ISSUE 2: WHEN are the appellants entitled to deduct an ABIL?
- WIN/LOSE: LOSS
- RULING /RATIONALE: "Based on this the judge concluded that the debt was not a bad debt at the end of 2006 & either neither party would qualify for ABIL deduction."

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## Coveley– wage accruals & ABILs

### IMPLICATIONS:

- This illustrates a tax planning opportunity (accruing wages for unpaid work) which can be used by SR&ED intensive companies in early stages.
- It also underlines the complications with claiming losses on a company which;
  - is in poor financial position but
  - still active in any manner.

SIGNIFICANCE: Moderate

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### Notable quote:

**"Give a person a fish and you feed them for a day. Teach a person to use the Internet and they won't bother you for weeks, months, maybe years"**

*-Anonymous*

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## Economic overview of the SR&ED program in Canada

- Shift from tax credits to grants
- New BDC loan program for SR&ED

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## Shift from tax credits to grants

Research and Development in Canadian Industry						
Total business enterprise research and development expenditures						
	2010	2011	2012	2013	2014	% total
Manufacturing	7,334	7,577	7,434	7,159	7,131	36%
Services	7,056	7,470	7,049	6,951	6,914	35%
Information and communication technologies	4,664	5,128	4,770	4,673	4,625	23%
Mining and oil and gas extraction	981	1,044	1,244	994	941	5%
Utilities	188	193	230	237	214	1%
Construction	113	137	100	103	105	1%
Agriculture, forestry, fishing and hunting	131	124	95	92	94	0%
<b>Total all industries (x 1,000,000)</b>	<b>20,467</b>	<b>21,673</b>	<b>20,922</b>	<b>20,289</b>	<b>20,024</b>	<b>100%</b>
Total research and development personnel (full-time equivalent)						
Services	73,293	78,729	70,044	n/a	n/a	40%
Manufacturing	63,861	59,933	56,445			32%
Information and communication technologies	48,147	49,379	45,106			25%
Mining and oil and gas extraction	2,044	2,011	1,763			1%
Agriculture, forestry, fishing and hunting	1,945	1,750	1,439			1%
Construction	1,916	1,835	1,318			1%
Utilities		1,343	1,148			1%
<b>Total all industries</b>	<b>191,206</b>	<b>194,980</b>	<b>177,263</b>			<b>100%</b>

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## Shift from tax credits to grants

While the latest figures on spending have not been published by the government it appears that there has been a reduction in

- - 2007 levels of \$4.1 Billion & 25,000 claimants
- - 2012 levels of \$3.6 Billion & 23,000 claimants

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## Increase in SR&ED Objections

There has also been an increase in objection & appeals (roughly 600 objections in Ontario alone).

- Many of the claimants being denied had claimed successfully in prior years.
- Industries hardest hit appear to be manufacturing & software.

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## Notable quote:

**“All of us could take a lesson from the weather. It pays no attention to criticism”**

- Anonymous

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## New BDC loan program for SR&ED

September 2014 loan to \$250,000

Key terms:

- Up to 125% of claim (if previous successful claims) or
- 100% (if first time)
- Interest Rates: 6 to 9%
- No prepayment penalty
- Info: 1 888 463-6232 or [info@bdc.ca](mailto:info@bdc.ca)

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## Notable quote:

**“A clever, imaginative, humorous request can open closed doors and closed minds.”**

- Percy Ross

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## New CRA SR&ED pronouncements

- SR&ED T661 Claim Form – Revised optional filing measure for Part 9
- CRA reduces concern with SR&ED consulting fees
- SALT (Self-Assessment Learning Tool)

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## T661 – Revised optional filing measure for Part 9

Administrative measure Part 9 separately

- **Step 1.** Submit complete Form T661(13) by deadline. For Part 9 provide name of each claim preparer – line 940 & business number – line 945
- **Step 2.** You must submit a paper copy of the T661(13) -provide the billing arrangements – lines 950, 955, 960 & 965

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## Notable quote:

**“You can tell whether a man is clever by his answers.**

**You can tell whether a man is wise by his questions.”**

- *Naguib Mahfouz*

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## CRA reduces concern with SR&ED consulting fees

In the 2013 budget the Government confirmed:

- “The submissions received by the Government during the consultations indicated that intervention to regulate contingency fees directly is not required:
- the market for SR&ED tax preparers is competitive, contingency fee rates have declined over time and
- there is no evidence that this type of billing arrangement results in higher compliance costs for businesses.”

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## SALT (Self-Assessment Learning Tool)

Tool divided in **two standalone** interactive PDF files - download on your computer

- **Step 1** will help you understand the eligibility requirements for SR&ED work
- **Step 2** estimate expenditures & ITC.
- <http://www.cra-arc.gc.ca/txcrdt/sred-rsde/slt-eng.html>

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## SALT - Author's opinion

- These steps closely resemble the actual submission for the T661 form.
- They may provide a basis for potential claimants to receive pre-approvals or other guidance being offered in CRA outreach efforts.
- Ideally they could provide additional direction by way of sample projects.

## New tax changes

- TCC informal appeal limit increase to \$25K
- Stock option benefit denial of expenditure
- New rules on defining “control” & association

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## TCC informal appeal limit increase to \$25k

After June 25, 2013 Informal Procedure Application

“Where a taxpayer has so elected in the taxpayer’s notice of appeal or at such later time as may be provided in the rules of Court, And the **aggregate of all amounts in issue is equal to or less than \$25,000; ...**”

*18. (1) The provisions of sections 18.1 to 18.28 apply in respect of appeals under the Income Tax Act*

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### Notable quote:

**“One machine can do the work of fifty ordinary men. No machine can do the work of one extraordinary man.”**

*- Elbert Hubbard*

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## Stock option benefit denial of expenditure

- This legislation was recently passed with an effective Date: November 17, 2005 **except that for securities issued or sold before the announcement date (October 24, 2012), the definition "option"**

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## New rules on defining “control” & association

new 256.1(6) deems acquisition of control if:

- Shares of the corporation held by a person(s), have ...a fair market value (FMV) that exceeds 75% of the FMV of all the shares of the capital stock of the corporation.

Author’s opinion:

- This change appears to address concerns that loss companies are being used inappropriately.

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## Hot SR&ED issues in the media

- Social Media sites
  - Sample Comments on common themes
- Public media Globe & Mail
  - double dips on loans vs. credits

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### Notable quote:

**“One machine can do the work of fifty ordinary men. No machine can do the work of one extraordinary man.”**

*- Elbert Hubbard*

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## Social Media sites - Sample Comments common themes

### Linked In Groups which discuss SR&ED tax credit issues:

<u>Group</u>	<u>Scope</u>	<u># Members</u>
SR&ED Canada	Canadian SR&ED issues	1,560
CATA SR&ED	Canadian SR&ED issues	1,216
R&D tax credit forum	International R&D Tax credits	1,076

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## Inconsistency

"It looks like the strength of the Claim does not matter to CRA. Sometimes I have a feeling that CRA is putting all claims on a big table and at random selects 5% that will be rejected.

I have seen some very strong claims being rejected and some very weak ones being approved."

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"We are hearing that files under audit are being steamed rolled to an assessment and that requests for supporting documentation go beyond reason and reflect new expectations beyond what had been previously experienced."

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"One thing that's clear, at least to me, is that several years ago Harper's Government was very concerned by the increasing size of the program, which now seems to be getting smaller for whatever reason."

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## Recognizing Technological Advancement

"There's a trend in CRA with the mistaken belief that standard practice means "experimenting with practices and methods known to you. In that case, there is no SR&ED ever.

Our position is always: if it's standard practice, then no experimentation is required."

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"There seems to be a discrepancy between CRA's definition and those in common research papers in the field in what in fact constitutes an IT Technology when using that as a basis for whether the technology base was advanced in the project."

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## Public media Globe & Mail double dips on loans vs. credits

Recent Globe & mail article made the following statements &/or claims:

“For years, many companies have **been billing taxpayers twice when they do R&D – once via R&D tax credits**, and then **again** through direct assistance for the same work, typically in the form of government **loans, investments and other repayable contributions**.”

“But a Tax Court decision last year in a case involving Halifax-based Immunovaccine Technologies Inc. and the Canada Revenue Agency is **threatening to turn the rules** of the game upside down.”

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## Author's opinion

Statements taken together could mislead readers since;

- the legislation always reduced the SR&ED tax credits
- for they type of assistance in the Immunovaccine case.

As a result this is likely an isolated incident of a claimant who did not understand the SR&ED rules.

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## Notable quote:

“The digital camera is a great invention because it allows us to reminisce. Instantly.”

- Demetri Martin

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## Part III – other issues

Other issues of interest or cited by participants

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## Globe & Mail

September 19, 2014, By BILL CURRY

CRA staffing shakeup throws promised tax crackdown into question;

- “notices went out to more than **100 staff who handle taxpayer appeals of CRA decisions**, according to the Union of Taxation Employees...appears those auditors will be **shifted to a new focus** on small and medium-sized Canadian businesses..”
- “To be clear, the CRA is not reducing the number of tax evasion and tax avoidance experts or the number of auditors,” he wrote in an e-mail.”
- “This work force adjustment process will not result in any auditor positions being cut.”

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## Video series: CRA's SR&ED Tax Incentive Program (Sep 9, 2014)

- Video 1: Who can claim SR&ED tax incentives? (2:05 min)
- Video 2: What work qualifies for SR&ED tax incentives?(3:47)
- Video 3: How do you calculate your SR&ED expenditures & investment tax credit? (3:08 min)
- Video 4: How to apply for SR&ED tax incentives? (3:59 min)
- Both videos & Transcripts available for download.

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## Video 2: What work qualifies for SR&ED tax incentives?

- “So how do you know that you've achieved technological advancement? An easy way is to ask yourself: what technological uncertainties did you encounter when you tried to develop the product or process?”
- Technological uncertainties are barriers that prevent you from achieving your goals. The knowledge that you gain in overcoming those barriers is the technological advancement.”

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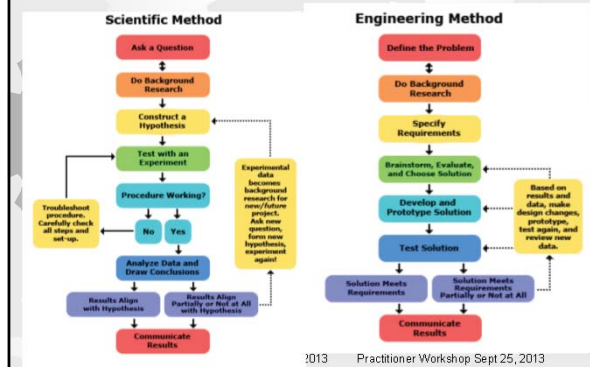
## Video 2: What work qualifies for SR&ED tax incentives?

- “In a nutshell, if you're doing a systematic investigation or search, by experiment or analysis, to advance science or technology, your work qualifies!”
- It's that simple!”

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### Comparing the Engineering Design Process and the Scientific Method

<http://www.sciencebuddies.org/engineering-design-process/engineering-design-compare-scientific-method.shtml>



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## Dispute resolution - formal vs. informal appeal strategies

Typical dispute resolution steps & timelines		
Step	Parties	Expected timeframe
1 Negotiate with CRA reviewer	CRA & client	30 days
2 1st admin. review	CRA & client	180 days
3 Objection	CRA & client	365 days
4 Tax Court of Canada		
a) Appeal - Informal	CRA, Dept. of Justice client	6-9 months
b) Appeal - General	CRA, Dept. of Justice client	2-3 years

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## Dispute resolution - formal vs. informal appeal strategies

### General Procedure (tax court)

- generally cost \$40,000+
- require use of a lawyer (tax litigator)
- takes 3+ years during which
- subsequent SR&ED claims can be held up

### Informal Procedure (tax court)

- \$100 application fee
- client or accountant can represent
- no lawyer required
- takes < 1 year
- limited to \$12,000 / year
- provides legal precedent for future years

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### SR&ED changes in March 29, 2012 Federal budget

Year change proposed to start (prorate)	2012 current	2013	2014 full effect
1) Federal ITC rate (non-CCPC)	20	20	15
2) Subcontractor costs (% eligible)	100	80	80
3) Rate to calculate proxy (overhead)	65	60	55
4) Capital equipment (% eligible)	100	100	0

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## International definition of an R&D project

- “For a ... project to be classified as R&D, its completion must be dependent on a scientific &/or **technological advance**, the aim of the project must be the **systematic resolution** of a scientific and/or **technological uncertainty**.”

• Source: Frascati Manual 2002, paragraph 135

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## 2014 YMPE set at \$52,500

SR&ED wages - annual limits					
1	SR&ED labour		YMPE	Specified employees*	Non-specified
	2012	\$	50,100	\$	250,500
	2013	\$	51,100	\$	255,500
	2014	\$	52,500	\$	262,500
2 Salary base for proxy amount					
	2012	\$	50,100	\$	125,250
	2013	\$	51,100	\$	127,750
	2014	\$	52,500	\$	131,250

\*Specified employees own >=10% any class of stock (or related to such shareholders).

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## SR&ED Salary & Wage inclusions

	Specified employees*	Non-specified employee	ITA section
1 R&D labour for the:			
a) R&D expenditure pool (for deduction), &			37(1)
b) Qualified expenses (for ITC calculation)			127(9)
Type of expense:	In	In	(5-8)
- salary & wages	Out	In	37(9) & 5(1)
- bonuses or profit based remuneration			
- Expenses paid > 180 days	Out	Out	78(4)
Maximum	5 x [YMPE]	N/A	37(9.1)
2 Salary base for proxy amount (for ITC calculation)			
Type of expense:	In	In	5
- Income from employment	Out	Out	5(1) & 37(9)
- bonuses/profit based remuneration			
- Expenses paid > 180 days	Out	Out	6 & 7
Maximum	2.5x [YMPE]	N/A	78(4) Reg. 2900(7)

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