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# LEAN THOUGHTS

**Richard Kunst**

Tel: 519 841 0150

E-mail: [rkunst@kunstartofsolutions.com](mailto:rkunst@kunstartofsolutions.com) Web: [www.kunstartofsolutions.com](http://www.kunstartofsolutions.com)

## ***Tips on making the most of government incentive programs for R&D***

Canada has a wonderful R&D tax credit program to inspire innovation. However, in the USA there exists several similar programs although the qualifications may vary from state to state ... you can check out the programs by visiting <http://www.irs.gov/businesses/article/0,,id=156353,00.html> However this article may be more resourceful [http://www.law.cornell.edu/uscode/26/usc\\_sec\\_26\\_00000041----000-.html](http://www.law.cornell.edu/uscode/26/usc_sec_26_00000041----000-.html)

Encouraging innovation is one of the most critical activities for any industrialized nation. Since 1985, Canada has offered incentives to encourage Canadian businesses of all sizes and in all sectors to conduct research and development that will lead to new or improved products, processes, or materials. The largest of such programs in Canada is known as SR&ED (Scientific Research & Experimental Development). This Federal program, when combined with various provincial incentives, can help companies who conduct their development work in Canada recoup substantial portions of their R&D expenditures, and bring direct benefits to their bottom line.

Many companies, however, overlook this source of revenue because they don't think they qualify, or due to a perceived lack of time, resources, or expertise to properly identify eligibility and manage the claims. For others, the program has been well utilized and acts as a source of regular, on-going financing for development activities.

The following article answers some common questions regarding the SR&ED program for companies who are already familiar with the program, and provides some tips to maximize claim sizes and improve the efficiency of processing a SR&ED claim.

### **How can the program help us?**

The SR&ED program gives claimants cash refunds and/or tax credits for their expenditures on eligible research and experimental development work done in Canada. What that translates into is enabling you to hire more or better staff, conduct more development work, or expedite your projects.

### **Our project failed. Can we still file a claim?**

Many companies, even some of those already taking advantage of the program, still believe that projects need to be successful to qualify. In fact, failed projects are ideal for claim purposes, as the failure inherently demonstrates that there was some technical risk and uncertainty to the claim. These kinds of setbacks are common on the path to advancement. Keep documentation on your failed projects to ensure you can claim the applicable expenditures!

### **What kind of documentation and record-keeping is necessary to file a claim?**

The government needs to ensure you have some kind of documentation to substantiate your claim. This information could include project records, such as notebooks, test results, progress reports, drawings, schematics, photographs, or emails. Ensure you keep dates on your documents, and if you utilize photographs, use a camera with a date/time stamp system that prints onto the photographs.

For scrap materials, if you don't have a certificate of scrap, consider keeping a dedicated area to store those materials, where feasible, until the claim is approved. Should there be a government review, it is helpful to have those materials available for inspection. Keep the area locked so that the items are not inadvertently disposed of

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### Where “Lean Thoughts” Become Reality



Regardless of the system you use, the system is only as useful as the effort placed in putting information into the system on a regular basis. Keeping your records updated regularly will put you in good stead at the end of the fiscal year and assist in minimizing your audit exposure.

#### Implementation recommendations

Make sure you have the management processes in place to ensure timely and accurate claim preparation:

- Assign internal responsibilities to ensure ownership of the various aspects of data collection.
- Ensure your staff understands the benefits SR&ED brings to the company, and ensure they have adequate training to complete their tasks.
- Ensure SR&ED claim completion is included in your team's annual goals and performance metrics.
- Collect and file documents regularly, rather than all at once at the end of the year.
- Schedule regular checkpoints with your team to ensure the claim process is progressing according to schedule and that documentation is being kept and maintained.
- Consider creating an internal email address (eg: sred@xyzco.com), and have your team carbon-copy that address for any SR&ED-applicable correspondence internally or with external suppliers or consultants. At the end of the year, you have a single inbox available for review with auditable, time-stamped records of project milestones and issues.

#### Recent changes to the SR&ED program

Up until recently, eligible salary expenditures were for employees working in Canada *only*. However, upon approval of the 2008 Budget proposal, claimants will now be able to earn SR&ED tax credits on permissible wages for SR&ED work performed *outside* Canada after February 25, 2008. The SR&ED work performed outside Canada must be directly undertaken by the employees of the claimant, and that work must form part of the SR&ED performed in Canada by the claimant. Permissible wages will be limited to 10 percent of the total of salary or wages for SR&ED performed in Canada.

In addition to changes to these SR&ED program parameters, the Canada Revenue Agency (CRA) and provincial programs (like OITC) are currently undergoing a consolidation, with future claims to be processed entirely by the CRA. Over the long term, this will result in faster claim processing, a simplified contact structure, and an overall more efficient system.

#### Tips to maximize your claim

- Consider your compensation structure when planning for SR&ED. For example, bonuses, dividends, and stock options not eligible to claim for specified employees. Adjusting your structure may allow you to enhance your SR&ED claim size.
- Note that when assessing capital or lease equipment to be used for SR&ED purposes, used equipment is not eligible to claim. Buying lower-cost used equipment may actually end up costing more than new equipment once the SR&ED benefits are netted out.
- Consider that work done outside Canada (with exception of a recent change proposed in the 2008 budget discussed below) and by non-resident contractors is not eligible to claim. As such, when considering where to conduct your development or who to hire, recognize that lower cost out of country resources may end up costing more than using Canadian resources once you net out the SR&ED benefits.
- Consider utilizing an external consultant to guide you through the claim process. They can reduce workload for your staff, they have familiarity with the process so as to prevent errors which increase the risk of audit, and they understand eligibility criteria so as to find opportunities that may otherwise be overlooked. The resultant incremental claim recovery can often exceed the consultant's fees.

As you can see, the SR&ED program provides strong incentives to companies willing to undertake efforts to achieve technological or scientific advancement. Participation not only helps to reduce the financial impact of development costs, but also attracts more companies to endeavour for advancement. In turn, this generates significant benefit for the overall growth of the Canadian economy, which was the original intent of the program. If you think your organization may be eligible, don't hesitate to look for ways to take advantage of this outstanding government program today. If you are already taking advantage of the program, we hope this article has given you some ideas to streamline your SR&ED process.

#### Want more information?

For more information on the SR&ED program, visit the CRA web site at <http://www.cra-arc.gc.ca/sred/>

#### About the author

Jason Schwandt is a consultant with Techcentive Services Incorporated (TSI), and holds an Engineering Degree and MBA (Management of Innovation) from McMaster University. His firm assists companies in identifying and filing SR&ED tax credits. He can be reached at 905-738-6770 or via email at [jason@techcentiveservices.com](mailto:jason@techcentiveservices.com)

## 2008 Consortium Event Schedule



**T**our   **W**orkshop   **C**onference

| January                                                                                                                                        | February                                                                                                                                               | March                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | April                                                                                                                                                                                                                                                                                  | May                                                                                                                                                             | June                                                                                                                                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>T</b><br>Wednesday 16<br><b>Eaton Electrical</b> ,<br>contact Joe Fisher,<br><a href="mailto:JoeRFisher@eaton.com">JoeRFisher@eaton.com</a> | <b>T</b><br>Wednesday 13,<br><b>ACE Bakery</b> ,<br>contact Cindy Grolleman,<br><a href="mailto:cgrolleman@acebakery.com">cgrolleman@acebakery.com</a> | <b>T</b><br>Wednesday 19,<br><b>Nestle Waters</b> ,<br>contact Mariela Castano<br><a href="mailto:mcastano@perriergroup.com">mcastano@perriergroup.com</a>                                                                                                                                                                                                                                                                                                                                                                                                          | <b>C</b><br><b>Consortium Shareshowcase</b><br><br><b>Saturday 05</b><br><b>Eaton Milton</b> ,<br>Contact Cindy Grolleman<br><a href="mailto:cgrolleman@acebakery.com">cgrolleman@acebakery.com</a><br>or Joe Fisher<br><a href="mailto:JoeRFisher@eaton.com">JoeRFisher@eaton.com</a> | <b>T</b><br>Wednesday 14,<br><b>Alumicor</b> ,<br>contact Barry Wood<br><a href="mailto:barry@Alumicor.com">barry@Alumicor.com</a>                              | <b>T</b><br>Wednesday 18,<br><b>Morrison LaMothe</b> ,<br>contact Tony Vita<br><a href="mailto:tvita@morrisonlamthe.com">tvita@morrisonlamthe.com</a> |
| July                                                                                                                                           | August                                                                                                                                                 | September                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | October                                                                                                                                                                                                                                                                                | November                                                                                                                                                        | December                                                                                                                                              |
|                                                                                                                                                |                                                                                                                                                        | <b>T</b><br>Wednesday 24,<br><b>Kraft Foods</b> ,<br>contact Hanif Jivraj<br><a href="mailto:hjivraj@Kraft.com">hjivraj@Kraft.com</a><br><br><b>C</b><br><b>Executive Forum</b><br>Tuesday & Wednesday<br>23 <sup>rd</sup> & 24 <sup>th</sup><br>Contact Richard to register<br><a href="mailto:rkunst@kunstartofsolutions.com">rkunst@kunstartofsolutions.com</a><br><br><b>C</b><br>22 <sup>nd</sup> Transportation<br>Thursday 24 <sup>th</sup><br><a href="http://www.transportconference.net/emapage.html">http://www.transportconference.net/emapage.html</a> | <b>T</b><br>Wednesday 16,<br><b>CTS Corp.</b> ,<br>contact Navneet Mann,<br><a href="mailto:navneet.mann@ctscorp.com">navneet.mann@ctscorp.com</a>                                                                                                                                     | <b>T</b><br>Wednesday 12,<br><b>Messier-Dowty</b> ,<br>contact Mike Smith<br><a href="mailto:Mike.Smith@Messier-dowty.on.ca">Mike.Smith@Messier-dowty.on.ca</a> | <b>T</b><br>Wednesday 10,<br><b>Orenda</b> ,<br>contact Brenda McIntosh<br><a href="mailto:brendamcintosh@orenda.com">brendamcintosh@orenda.com</a>   |