



Scientific Research & Experimental Development (SR&ED) *Refundable* Tax Credits

An explanation for Canadian Corporations

For more information contact Chris Stevens:

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Experimental means resolving, or attempting to resolve technical problems through a *series of different methods*. This results in the company gaining knowledge that it previously did not have. To be eligible for your refund, the corporation must have attempted to develop or improve a product or process through an experimental approach. The project does not have to be successful to qualify.

The filing deadline is 18 months after your fiscal year end in which the work was done.

The Program

- Canada Revenue Agency has administered this incentive program for Canadian companies developing or improving products or processes in Canada, since the mid-1980's.
- This refund is available to your company regardless if the company has paid any corporate tax and therefore represents new money for your company.
- In order to apply, your refund submission must include a project report detailing the development work as well as financial information regarding the costs or estimated costs.

The Process

- This is an incentive program and CRA encourages companies to apply. First time claimants are not required to have time sheets, rather, you are allowed to estimate your costs. Time sheets are mandatory for periods after the first claim. If you were to claim today and still doing development, CRA would expect you to have time-sheets or other documentation from this point forward for any future claims.

Are you eligible?

- To be eligible for a refund, the corporation must have attempted to develop or improve a product or process through an experimental approach.
- Experimental means resolving technical problems through a series of different methods. Some people refer to this as 'trial and error'.

The Criteria

Technological

- technological advancement within your business (development does not have to be original, see below, your competitor may have already developed what you are trying to develop, however, if the method is not public knowledge, the work is still eligible).
- technological uncertainty must exist (how or can it be done).
- experimental process was followed.

Financial

- Wages
 - Must only be for those employees involved in R&D.
 - Contractors must be Canadian taxpayers and arm's length (starting 1/1/2013 80% of each qualifying dollar may be claimed)
- Materials (transformed into a prototype or scrapped/consumed).

Indicators of eligibility for federal refundable tax credits at 35% to 77% of development costs

- your firm is a Canadian Controlled Private Corporation (CCPC) eligible for the small business deduction (SBD), if you are other than a CCPC, please call for more information or see below.
- the company has spent money on attempting to develop or improve a product or process through an experimental process.

Indicators of eligibility for federal tax credits at 20% of development costs (15% after 1/1/2014)

- non-Canadian control or, corporation over \$800K taxable income, or public company.
- the company has spent money on attempting to develop or improve a product or process.
- these 'non-refundable' tax credits may be carried back 3 years for a refund of any corporate tax paid or carried forward indefinitely.

How much can we get back?

- in a short telephone call, Iwasan will gather preliminary numbers to estimate your refund.
- refund amounts vary from 35% to 77% of costs.
- Iwasan will present you with a written estimate of the refund amount and a proposal at no charge or obligation.

What kind of help do I need to make a successful SR&ED claim?

Full Claim Preparation to Claim Completion

- Iwasan prepares all documents necessary, including project reports, project costing and required schedules.
- Iwasan works with CRA officials and monitors the claim as it progresses through the system.

Technical Report Writing / Financial assistance

Iwasan works with some companies on an ongoing basis supporting their SRED application with project report writing only or with assistance compiling only the financial aspects of the claim.

Review and Assist as Required

Iwasan can review and edit reports you have written or review project costs that you have developed or we can assist during science or financial reviews.

What kind of fee am I interested in paying?

- Contingency fees - You do not pay until you receive your refund. Percentage is based on the work required and the size of the claim.
- Fixed fees – risk transfers to client and the client pays less.
- Hourly rates – current rates are \$325.00/hour.

Service and Fee Proposal

At no charge, Iwasan will provide you with a personalized refund estimate and proposal in writing. This includes two fee structures from which to choose.

You are ready to start the claim preparation process:

A consultant will contact you to conduct an initial interview:

- discuss the project(s) name(s) and dates and determine who worked on them.
- request financial information, e.g., tax return(s), payroll information, etc.
- determine who is the technical contact person at your firm to be interviewed.

A Technical writer will prepare the project report(s)

An Iwasan technical writer will contact your technical person to gather the information required for the project report(s). Typically this involves an initial interview followed by emails to review and fill in any outstanding information. The interview can be by phone or in person. We ask that one hour be set aside for each project report.

Your Consultant will compile the project costs

Project costs will be compiled into spreadsheet format for inclusion with the application that is prepared by a CA (Chartered Accountant).

SR&ED applications are included with a corporation's tax return

Iwasan will use our CA to amend your already assessed or yet to be filed corporate tax return to include the SR&ED application, or we can work with your accountant.

How long to process an application?

If you filed your claim for a taxation period which has already been assessed

- these claims are called TPR's (TaxPayer Request for amendment)
- CRA's processing of TPR claims is at a lower priority than claims filed with a current tax return. CRA's target processing time for a TPR is 240 days (8 months) but most claims are processed in 4-6 months or less.

If you file your claim when you file your tax return:

- these claims are given the highest priority at CRA.
- CRA's target processing time is 120 days.

SR&ED Claim Reviews

-There are two types of reviews

-A science / technical review

-A financial review

You may see one or both of the reviewers or, alternatively, your claim may be processed on a desk review basis which means you won't hear from CRA until you receive your approval or 'final letter' from CRA.

Science Review

-a Research and Technology Advisor (RTA) advisor from CRA may approve your claim based on the report provided and perhaps a telephone follow-up call / letter, or

-the RT advisor may wish to visit you to establish your eligibility under the program.

-these reviews are usually about 1-2 hours in duration. CRA explains that the primary reason for the site visit is to assist you in how to prepare future claims.

Financial Review

-claimants may have their claim reviewed for expenditure eligibility.

-this review is limited to the supporting documentation for the expenses claimed and is not an audit of the company.

-the financial review is often conducted simultaneously with the science review and typically lasts 1-2 hours.

A proposal letter or final letter will be received from CRA

-once the reviews are finalized, CRA will issue either a

-letter proposing the amount approved, or

-a 'final letter' confirming the amount filed or agreed to at the time of review.

Notice of Assessment or Reassessment

Within 3-4 weeks of the final letter a Notice of Assessment (NOA) or Notice of Reassessment (NOR) will be received.

Refund cheque

A cheque will arrive 1-21 days after receiving the Notice of Assessment. Provided the company is not indebted to CRA and all returns are up to date, e.g. payroll, GST, etc. Outstanding amounts or returns results in CRA holding the refund. If you have debt or returns outstanding, let Iwasan know before the claim is filed so that outstanding matters can be resolved prior to the claim being processed. This will speed up the processing of your refund.

Iwasan Consulting was founded in 1988 to provide services beyond the normal scope of a company's accountant. In 1992 our focus shifted to exclusively working with SR&ED applications. Our clients are Canadian businesses involved in manufacturing, information technology, high technology, biotechnology and agri-tech. Chris Stevens is a former Canada Revenue Agency (formerly Revenue Canada) tax interpretations officer. Together with our team of associates, we are ready to assist your firm in maximizing your R&D tax refund while minimizing your time.



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IWASAN CONSULTING
RESEARCH AND DEVELOPMENT GRANTS
PROJECT EVALUATION QUESTIONNAIRE

Company: _____ Name: _____
Phone: _____ ThomasHaas _____ Fax: _____

Please answer "Yes" or "No" to each option in the following sections:

1) Technological Advancement

- a) Have you developed or planned to develop a new product or process? Yes No
b) Have you made or attempted to make an advance in technology? Yes No
c) Have you gained any new knowledge in a field of technology? Yes No

2) Technological Field

- a) What is the area of technology?
[] Software [] High Tech [] Mechanical Engineering
[] Chemical Engineering [] Other: specify _____

3) Technological Uncertainty

- a) Was there a technological uncertainty present at the outset or during the project? Yes No
b) Was an experimental process followed to resolve the uncertainty? Yes No

4) Time Limits

- a) Will you be doing R&D in the next 12 months? Yes No

5) Corporate Tax Return

- a) Is the company current with tax return filings? Yes No
b) Have you ever made a claim for SR&ED expenditures? Yes No
c) Is the company a Canadian controlled private corporation? Yes No

6) Claim Estimate

- a) What is your estimated number of R&D projects in each fiscal period?
 1-2 2-4 4-6 6-8 8-10 other (specify) _____
- b) How many person years do you estimate were or will be involved in the R&D process?
 1-2 2-4 4-6 6-8 8-10 other (specify) _____
- c) Development work was done during 201 _____
Corporate fiscal year end is: _____

7) Where did you hear about us?

- Fax Mail www.iwasan.com Newspaper Internet Other

Fax or E-mail this questionnaire to Chris Stevens at 1-866-497-2811 / cstevens@iwasan.com and we will contact you to discuss your refund eligibility.