



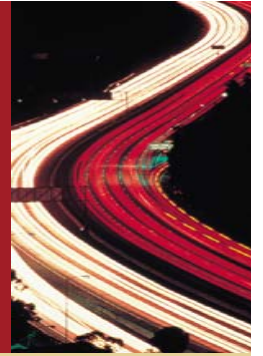
Scientific Research & Experimental Development Overview

WatStart

December 12, 2006

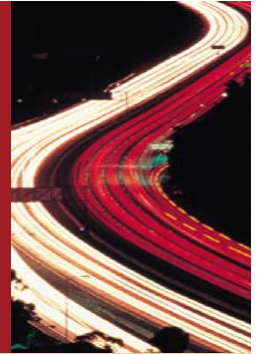
PRICEWATERHOUSECOOPERS 

Agenda



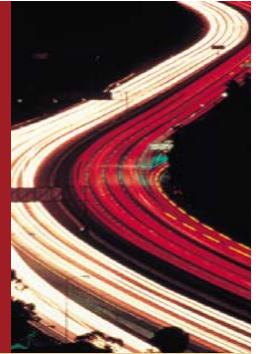
- Introduction / Overview
- Benefits of claiming SR&ED
- What is SR&ED and project eligibility criteria
- Qualifying expenditures
- Requirements
- PricewaterhouseCoopers' assistance

Introduction / Overview



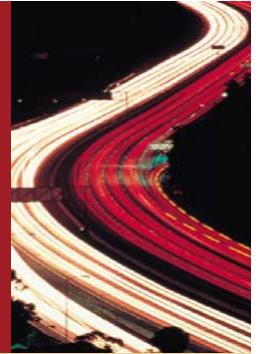
- SR&ED program is an incentive program administered by CRA to encourage innovation and SR&ED within Canada
- CRA receives claims from over 11,000 companies each year
- 75% of claims are from small companies whose R&D expenditures range from \$20,000 – \$2,000,000
- Over \$1.8 billion of ITCs claimed annually
- Qualifying companies get money back in the form of a refund, a reduction in taxes payable, or both

Benefits



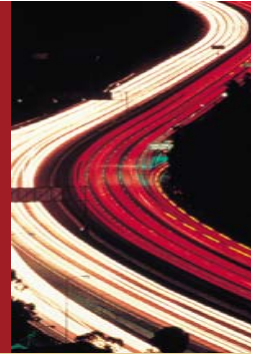
- Federal investment tax credits
- Provincial tax credits
- Immediate write-off or carry forward
 - Current expenditures
 - Capital expenditures

SR&ED Federal – Investment Tax Credits



- 20% of qualifying expenditures (35% for CCPC's)
 - Salaries
 - Materials
 - Contract payments
 - Third party payments
 - Capital equipment
 - Incremental overhead expenditures
- Credit against Federal Income Taxes
- Can be carried back three taxation years and forward twenty taxation years

SR&ED in Ontario – OITC



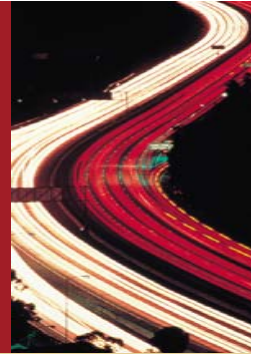
- Same eligibility criteria as for federal credit on SR&ED expenditures
- 10% of qualifying expenditures
- Fully refundable credit
- \$2 million annual expenditure limit
- Expanded definition of eligible corporation
 - Income test (phased out between \$300,000 - \$500,000)
 - Taxable capital (phased out between \$25,000,000 - \$50,000,000)
- Available to all public and private corporations

Illustration of Tax Benefits for a CCPC



		Ontario CCPC No SR&ED	Ontario CCPC SR&ED with OITC
Amount of Expenditure	(A)	\$100.00	\$100.00
Federal tax credit		-	(31.50)
OITC			(10.00)
Deduction from taxable income (federal)		\$100.00	\$ 58.50 *
* Federal ITC not netted against deductible expense for Ontario income tax purposes			
Tax savings			
Tax savings due to expense deduction		\$ 18.62	\$ 12.63
Federal tax credit		-	31.50
OITC		-	10.00
Total tax saving	(B)	\$ 18.62	\$ 54.13
Net cost of expenditure	[(A)-(B)]	\$ 81.38	\$ 45.87

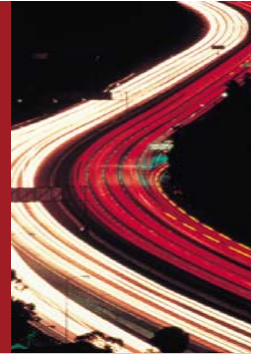
Illustration of Tax Benefits



Assumptions

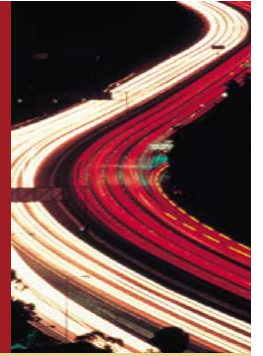
1. SR&ED carried on in Ontario. Provincial SR&ED incentives vary depending on the province in which the SR&ED is undertaken
2. 100% allocation of taxable income to Ontario
3. The company's December 31, 2006 combined federal (22.12%) and Ontario (12.00%) tax rate is 34.12% (100% - Manufacturing and Processing) CCPC tax rate is 18.62%
4. The company generates sufficient federal and provincial income taxes to utilize the incentives available

What is SR&ED



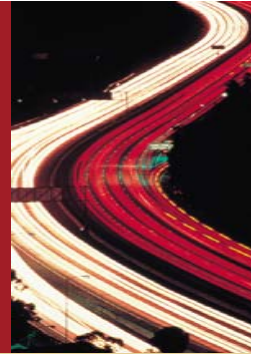
- Basic research
 - Work undertaken for the advancement of scientific knowledge without a specific practical application in view
 - Examples:
 - A university studying how temperature affects molecular weight distribution when synthesizing a polymer

What is SR&ED



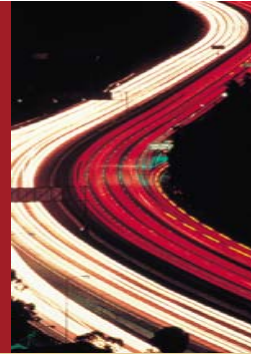
- Applied research
 - Work undertaken for the advancement of scientific knowledge with a practical application in view

What is SR&ED



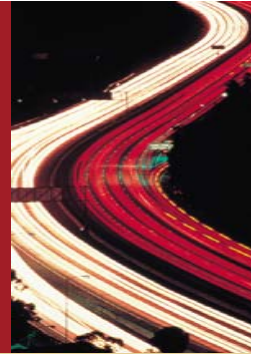
- Experimental development
 - Work undertaken for the purposes of achieving technological advancement for the purposes of creating new, or improving existing:
 - Materials, devices, products or processes, including incremental improvements

What is SR&ED



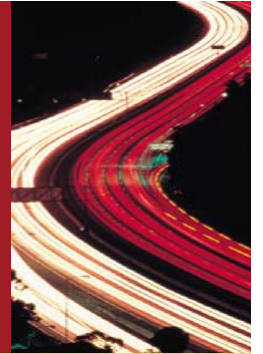
- Direct support activities that can be linked to basic research, applied research or experimental development
 1. Data collection
 2. Testing
 3. Computer programming
 4. Mathematical analysis
 5. Engineering
 6. Design
 7. Operations research
 8. Psychological research

What is Not SR&ED



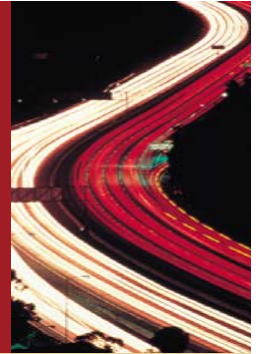
- Market research or sales promotion
- Quality control or routine testing
- Commercial production
- Style changes
- Routine data collection
- Prospecting, exploring or drilling
- Research in the social sciences or the humanities

Criteria



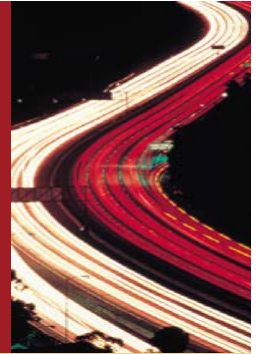
- Technological advancement
- Technological uncertainty
- Technical content (systematic investigation)

Technological Advancement



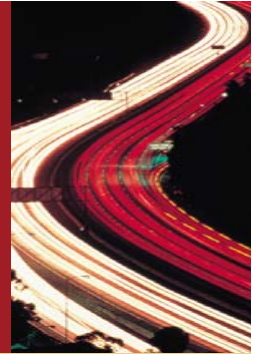
- Trying to move the technology base to a higher level from where it was at the beginning of the attempt
- Necessary to be able to demonstrate that the solution to the technological problem was not commonly available at the time the work was undertaken
- An advance in the technology of the business entity doing the research
- Advance indicated by departures from standard practice

Technological Uncertainty



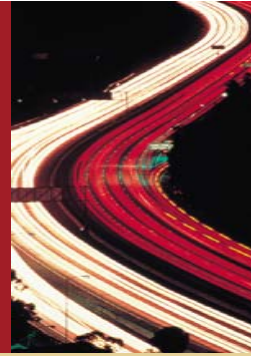
- Uncertainty as to whether a given objective can be achieved at all, or how best to achieve it
- System uncertainty may arise due to the new integration and interaction of otherwise predictable system components
- May occur due to required cost or efficiency targets

Technological Content



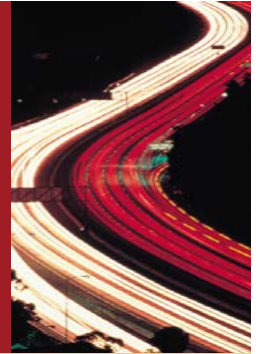
- Systematic Investigation: a process involving
 - Scientific or technological problem definition
 - Hypothesis formulation
 - Experimental testing and analysis
 - Deductions and conclusions
 - Iterative process
- Requires documentation and use of qualified personnel

Investment Tax Credits



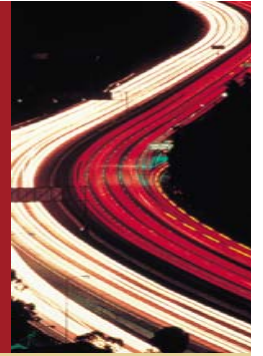
- Proxy election
 - Simplified method
 - Used in calculation of ITC only
 - Overhead expenditures
 - Incremental cost basis, or
 - Proxy method

Requirements



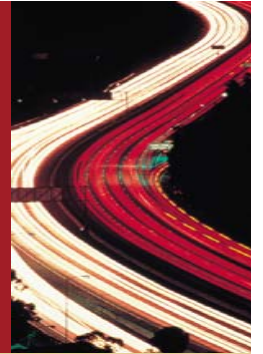
- Prescribed form (T661)
- Two parts
 - Scientific
 - Financial
- Timely claim – 18 months
- Documentation

Financial Documentation



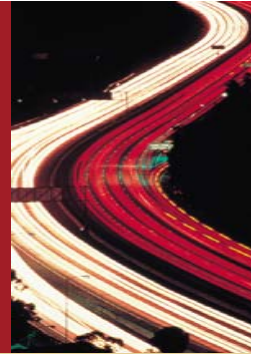
- Record costs on each project separately
- Keep a record of
 - Labour (time records)
 - Material (purchased or taken stock)
 - Subcontractors
 - Payments to third parties
 - Shared-used assets
- Must be made at the time of the work
- Must be dated and verifiable

Scientific Documentation



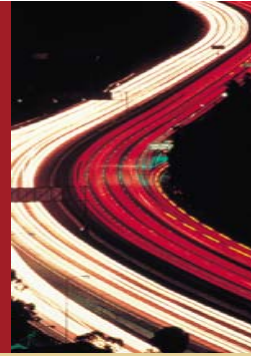
- Demonstrate technical nature of the work performed
- Relate directly to the projects claimed
- Must be made at the time of the work
- Naturally-occurring documentation is sufficient

Scientific Documentation



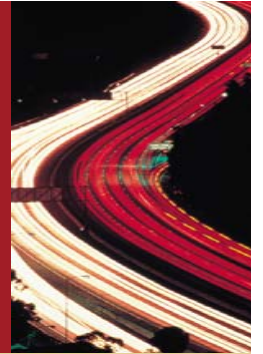
- Examples:
 - Technological feasibility study
 - Early project plans showing intended work
 - R&D progress reviews and status reports
 - Project notebooks
 - Test plans & results
 - Timesheets and resumes

PwC Assistance



- Identifying qualifying SR&ED projects
- Preparing technical documentation
- Identify and capturing SR&ED-eligible costs
- Implementing a system to capture future SR&ED projects
- Preparing federal and provincial tax forms
- Preparing scientific/technical descriptions
- Providing CRA audit support

Thank you



- Contact Information

- Martin Kern, Partner 519-570-5711
- Brian Glutek, Science Advisor 519-570-5717
- Kelly McCann, Financial 519-570-5744