



## Why your business is likely eligible for a SR&ED tax credit

As a small business ready to expand, you may have heard of the Scientific Research and Experimental Development (SR&ED) program. Maybe you've even skimmed the qualifications and asked your friends a few questions. If you think there's no way your fledgling company would qualify for the R&D tax credit, we have good news. With changing eligibility evaluations, many small businesses in a variety of fields can qualify, even if you don't have an R&D department. Find out what's changed and if your growing company can benefit.

### Let's refresh your memory: What's the SR&ED credit?

The Scientific Research and Experimental Development (SR&ED) program is a federal tax incentive designed to encourage Canadian businesses to conduct research and development (R&D) in Canada.

The SR&ED program provides approximately \$3 billion annually to businesses of all types and sizes in virtually all sectors. Generally, a Canadian-Controlled Private Corporation ("CCPC") can earn a refundable tax credit at the enhanced rate of 35% on up to \$3 million of qualified SR&ED expenditures. For all other businesses, the credit is limited to 15% of the qualifying expenditures.

## What Ontario businesses should know

Ontario businesses are qualified to earn additional incentives through local programs such as the Ontario Innovation Tax Credit (OITC), where your business could earn a tax credit of up to 8%, and the Ontario Research and Development Tax Credit (ORDTC), which is non-refundable and could earn you a credit of up to 3.5%.

These incentives, which are administered by the CRA, are to be treated as complementary to the SR&ED program and have similar qualifications.

## What is the credit for?

The SR&ED program provides tax incentives for the direct, in-house costs associated with performing eligible R&D work in Canada, including:

- Experimental development
- Basic and applied research
- Certain types of supporting work, including engineering, design, operations research, mathematical analysis, computer programming, data collection and testing.

Eligible expenses include:

- Wages and salaries of employees and contractors directly engaged in the eligible R&D work
- Overhead expenditures
- Materials

## Do I qualify for SR&ED?

At Zeifmans, many of our small business clients are surprised to learn that they in fact do qualify for the SR&ED credit. The most common industries benefiting from this program include manufacturing, healthcare, technology, software, and food and beverage. Designed to support small business growth, qualifications for the credit are relatively simple.

### Your business could qualify for SR&ED if your targeted growth activities involve one of the following:



**Basic research:** Pursuing scientific advancement, without a specific practical application in mind.



**Applied research:** Research focused on a specific practical application.



**Experimental development:** Creating or improving existing materials, devices, products or processes. This can include incremental improvements.





## Understanding program changes

In 2021, several changes were made to the SR&ED program. While eligibility itself hasn't changed (and is still based on the definition of SR&ED found in the Income Tax Act), the CRA will now be evaluating the eligibility criteria differently. Before 2021, the CRA had a five-question approach to evaluating eligibility, which was complicated for small businesses to navigate. Now, they only ask two questions:

### Q1: Why was the work done?

To qualify, your company's R&D work must have the goal of either advancing scientific knowledge or technological capabilities. If the work was done for the following reasons, it's not eligible for the credit, even if the end result did lead to technological advancement:

- Market research or sales
- Quality control
- Social science or humanities research
- Style changes
- Prospecting for minerals, petroleum or natural gas
- Commercial production or use of materials (new or improved)
- Data collection

### Q2: How was the work done?

Work must have been completed through a "systematic investigation or search" as per the CRA's official definition.

This simplified approach to evaluating the SR&ED criteria is meant to eliminate any barriers to small businesses who may not understand how the "scientific method" or "testing a hypothesis" relates to their work. The CRA's new policy includes simpler language aimed at helping businesses better understand if they qualify. It's important to note that the T661 form, which many thought would also change, remains the same.









### What this means for applicants

While this new process makes the SR&ED credit more accessible to small businesses, it does mean that the way applicants write project descriptions will need to change. You should focus on clearly explaining why the work was done, while also providing insight into the limitations of your field. You'll have to prove that current technology or approaches weren't able to solve your problem.

Descriptions should show how the work process fits into the CRA's definition of systematic investigation, proving that your company had a clear plan of action. Applicants tend to focus on what was done rather than how and why it was completed, which is a common misstep.

## Why you may be eligible - even if you don't think you are

A common misconception is that a company needs an R&D department to be eligible for this credit. The truth is, you don't. Businesses can still be eligible, even if:

-  **Your project failed.** Lack of commercial success of a particular project does not necessarily make it ineligible for SR&ED credit.
-  **Your project won't be completed this fiscal year.** Work done this fiscal year can still be claimed.
-  **You don't pay taxes yet.** You can still claim your SR&ED expenses.
-  **You want to sell your prototype.** This one's a little tricky, since there are guidelines that could exclude your company, but because scenarios are evaluated on a case-by-case basis, your company could still be eligible.
-  **You're already receiving funding from the government.** You might still be able to claim for the amount that hasn't been covered by government funding.
-  **Your competitors are doing the same type of work already.** If you can prove that their work wasn't publicly accessible while your company was doing similar work, you could still be eligible.
-  **You're a startup.** Some startups do qualify.
-  **Your fiscal year is over.** Claims can still be filed up to 18 months after your fiscal year ends.

## Funding your growth

A variety of small businesses in many industries are eligible for the SR&ED credit, even if they don't know it.

If you're ready for the next phase of growth for your business, reach out to the Zeifmans Technology & Startups team to talk about how the SR&ED credit could be the key to your future success – your Zeifmans advisor will also be able to support you through the SR&ED application process. Call us today at 416.256.4000, or e-mail at [info@zeifmans.ca](mailto:info@zeifmans.ca).



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# SR&ED Checklist

## Does my R&D project qualify?

- Is the work being done in Canada?
- Are you a Canadian-Controlled Private Corporation (CCPC), other corporation, proprietorship, partnership or trust?
- Is the work focused on any of the following growth activities: basic research, applied research, or experimental development?
- Does your R&D work meet the three criteria for eligibility?
  - **Technological advancement** - new knowledge gained from the development of new or improved products or processes. Small, incremental knowledge gains or improvements are eligible.
  - **Technological uncertainty** - there were challenges that could not be overcome by applying available technology to your problem, so you had to develop your own solution.
  - **Technical content** - the work follows a documented systematic process of testing a hypothesis, with clearly stated goals and methodology.

## Work that does not qualify:

- Market research, testing & development, sales promotion, routine testing & analysis
- Updating style elements
- Social science, arts or humanities research
- Prospecting, exploring or drilling for minerals or petroleum
- Routine data collection and processing
- Incremental improvement of an existing commercial product, service or process

## What are eligible expenditures against which you can claim SR&ED credit

- Salaries or wages of employees and owners while conducting the R&D.
- Cost of Canadian subcontractors involved in the R&D.
- Materials used in R&D.
- Overhead costs attributed to the R&D Project.

## What method should I use to calculate overhead costs?

### Traditional method

This method allows you to claim all overhead and R&D expenditures, with no proxy cap. However, this is more labour intensive as every expense must be recorded and justified with a date-stamped record-keeping system.

### Proxy method

This is a simpler calculation method that requires far less detailed record-keeping and no direct tracking of expenditures. Using a proxy method, you estimate a capped calculation of overhead expenses based on eligible salaries.

## What documents do I need to apply for the credit?

You will need to complete two mandatory forms, along with filing your corporate tax return and supporting documentation. Here's the [CRA's guide to completing Form T661](#).

### Individuals

- [Form T661](#) and [Form T2038, Investment Tax Credit](#) - should be filed no later than 12 months after the corporate income tax return
- Tax return** - file together with forms, if possible

### Corporations

- [Form T661](#) and [Schedule T2SCH31, Investment Tax Credit](#) - should be filed no later than 12 months after the corporate income tax return
- Tax return** - file together with forms, if possible

## How do I support my application?

Your SR&ED application is evaluated solely on your submitted documentation. The CRA offers many details on what [documents to include](#) in your application and a full run-down on [how to make an SR&ED claim](#) here. It's important to make sure your documents are dated and were created while the work was being done. The CRA recommends that you keep documents that support the following areas:

- Outline complete project schedule.
- Provide an overview of technical challenges, including a description of experiments and results.
- Details of prototypes developed.
- Tell your technical narrative; an explanation of how your work meets the three SR&ED requirements outlined in the first section.
- Calculations of qualifying costs and explanations.

## Stack your tax credits

- Check if your business is eligible for additional, [complementary regional R&D tax credits](#)

## Questions? Access free resources for first-time claimants

- Request a **pre-claim consultation** with your local CRA SR&ED reviewer
- Request a **1:1 consultation with a Zeifmans tax expert**

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