

August 2003

## Scientific Research and Experimental Development (SR&ED)

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### What is the SR&ED Program?

The Scientific Research and Experimental Development (SR&ED) Program is a federal tax incentive program to encourage Canadian businesses of all sizes and in all sectors to conduct research and development (R&D) in Canada that will lead to new, improved, or technologically advanced products, services, or processes. The SR&ED Program is the largest single source of federal government support for industrial research and development.

Claimants can apply for SR&ED investment tax credits for expenditures such as wages, materials, machinery, equipment, some overhead, and SR&ED contracts.

### Who qualifies?

Generally, Canadian-controlled private corporations with less than \$200,000 in taxable income can receive a refundable investment tax credit (ITC) of 35% of qualifying SR&ED expenditures, to a maximum of \$2 million of expenditures. Most other Canadian corporations, proprietorships, partnerships, and trusts can receive an investment tax credit of 20% of qualifying SR&ED expenditures.

What kind of projects qualify?

To qualify for the SR&ED Program, work must advance the understanding of scientific relations or technologies, address scientific or technological uncertainty, and incorporate a systematic investigation by qualified personnel. Work that qualifies for SR&ED tax credits includes:

- Experimental development to achieve technological advancement to create new materials, devices, products, or processes, or improve existing ones
- Applied research to advance scientific knowledge with a specific practical application in view
- Basic research to advance scientific knowledge without a specific practical application in view

Support work in engineering, design, operations research, mathematical analysis, computer programming, data collection, testing, or psychological research, but only if the work is commensurate with, and directly supports, the eligible experimental development, or applied or basic research.

## **What activities are NOT eligible for benefits under the program?**

The following activities are not eligible for benefits under the program:

- Social science and humanities research
- Commercial production of a new or improved material, device, or product, or the commercial use of a new or improved process
- Style changes
- Market research or sales promotion
- Quality control or routine testing of materials, devices, products, or processes
- Routine data collection
- Prospecting, exploring, or drilling for or producing minerals, petroleum, or natural gas
- Development based solely on design or routine engineering practice

## **How do businesses apply?**

Complete Form T661, Claim for Scientific Research and Experimental Development (SR&ED) in Canada. Also complete Schedule T2SCH31, Investment Tax Credit - Corporations, if you are a corporation, or Form T2038(IND), Investment Tax Credit (Individuals), if you are an individual.

You should submit your claim with your T2 or your T1 income tax return. However, you can file SR&ED claims as late as 12 months after your filing due date for the year in which the SR&ED expenditure was incurred.

For further information, advice or assistance, contact:

<http://www.ccr-aadrc.gc.ca/taxcredit/sred/aboutus-e.html>

London Contact: Cheryl Norman, Financial Review Manager (519) 675-3033