

SR & ED Program—Proposed Reform on the Horizon

During 2011, several reports were written to review the federal support of research and development (R&D) in Canada. One of which, referred to as the Jenkins Report, was done by an expert panel commissioned by the federal government and was issued on October 17th. It makes a series of recommendations that call for a simplified and more focused approach to the R&D funding provided by the federal government each year.

Some of the recommendations may affect utilization of the Scientific Research and Experimental Development (SR&ED) program. The second recommendation of the report was: "Simplify the SR&ED program basing the tax credit for small and medium-sized enterprises (SMEs) on labour-related costs. Redeploy funds from the tax credit to a more complete set of direct support initiatives to help SMEs grow into larger competitive firms."



Some suggested changes to the program are outlined in the following points:

- In an effort to simplify the compliance and administrative aspects of the SR&ED program for Canadian-controlled private corporations (CCPCs), eligible costs could now be restricted to labour-related costs, and costs such as materials and capital equipment would be eliminated. The program would be simplified by moving to a program cost base formed by the direct

labour costs, the labour component of contracts (assumed to be 50%), and payments to third parties such as post secondary institutions.

- Because the tax credit would be calculated on a smaller cost base than before, the current 35% rate for small companies would have to be increased to help compensate for the difference.

- The 65% proxy allowance rate currently used for overhead costs might also be adjusted to a more realistic figure as necessary after being reviewed in light of actual overhead costs.

- Further to what has been outlined above, there could also be an adjustment to the refundable portion of the SR&ED tax credits that a company could receive. The refundable portion of the tax credits might be reduced over time so that a portion of the benefit could only be claimed if the company is profitable. Small companies that are in a loss or break even position could see their SR&ED refunds lost over time and replaced with non-refundable credits.

- Improve the Canada Revenue Agency's proclaim project review service to provide firms with pre-approval of their eligibility for the credit.

Essentially the government would reduce spending on SR&ED tax credits and shift towards more direct funding for companies. The savings realized by reduced SR&ED tax credit spending may be used to pay for direct funding programs focused on the needs of innovative Canadian firms. One institution that could play a large role in this new model is the Industrial Research Assistance Program (IRAP). It is being suggested that IRAP be

moved under a newly formed Industrial Research and Innovation Council (IRIC) and that any reduced funding under the new SR&ED tax credit program be added to IRAP's budget. IRAP will then be able to increase its direct funding to small and medium-sized enterprises, in the way of grants, to those that qualify.

We do not know the extent to which these recommendations will be implemented. The consensus appears to be that there will be some changes to the SR&ED program, possibly in the next federal budget.

This'n That at Logan Katz

It's "Tax Time" again! Our 2011 Personal Tax Checklist and related documents are now available on the Publications page on our website and through request at office@logankatz.com.

Logan Katz in the Community

Last month Gary Katz spoke to a group of individuals for the Canadian Association of Family Enterprise (CAFE) on Taxable and Non-Taxable Employer Payments.

Brenda Valente spoke to a group of individuals at LASI World Skills Inc. earlier this month on Accounting, Taxation and Business Issues for Small Business.

David Logan and Don Armstrong attended as exhibitors at the opening launch of Invest Ottawa, formally known as OCRI (Ottawa Centre for Regional Innovation).

Denis Chainé spoke to a group of kidney patients in Gatineau to provide insight on a number of tax credits that benefit individuals with disabilities. The event was presented by the Gatineau chapter of the Canadian Kidney Foundation.

January On-Line Poll

The Logan Katz January on-line poll asked what is your take on the NHL All-Star game to be held in Ottawa January 29. Our results revealed that 31% were Very excited; 31% Somewhat excited; 31% Rather indifferent; 0% Not a very good thing; and 6% Totally turned off.

