



**The New Landscape in  
Government Industrial Support**

24 June 2013

# Agenda

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- ▶ Welcome and Introductions
- ▶ Leveraging the New Era
  - ▶ Evolution of the SRED Program
  - ▶ 2012 Federal Budget: SRED Impact
  - ▶ 2013 Federal Budget
  - ▶ What Can ME companies Do?
  - ▶ The New T661 – 3 Criteria to 5 Questions



## Evolution of the SR&ED Program

# Historically Significant Dates

- ▶ 1985 SR&ED Program replaces SRTC
- ▶ 1990/1994 18 month rule and Proxy Election
- ▶ 2008 Revised Simplified Form Released
- ▶ 2009 Electronic Filing of SR&ED
- ▶ 2010 Science Claim Review Manual
- ▶ 2011 Jenkins Report on Government Programs
- ▶ 2012 Ombudsman Report, 2012 Budget changes
- ▶ 2013 Policies combined, Audit Process Changes
- ▶ 2013 Appeal process changes
- ▶ 2013 *[October] New T661 with Five Questions*





## The Canadian 2012 Budget

# 2012 Federal Budget

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- ▶ Reduction tax credit rate from 20% to 15% after 2013
- ▶ Inclusion rate for contractor expenditures reduced to 80% after 2012
- ▶ Lease and capital expenditures not eligible after 2013
- ▶ Prescribed proxy amount reduced from 65% to 60% in 2013, and 55% after 2013
- ▶ Rate for CCPCs will remain at 35% and the current requirements for refundability will be maintained

# Impact In This Sector from 2012 Budget

## ▶ CCPC Claimants

- ▶ Proxy cutbacks most strongly felt
- ▶ Capital expenditures will shift focus of internal budgets and spend
- ▶ Net impact is 8-10% reduction in federal ITC value

## ▶ Large Claimants

- ▶ Significant input from contractors
- ▶ Very often claims proxy allowance for overheads
- ▶ Net impact is 30-40% reduction plus more for loss of capital expenditures

# 2013 Federal Budget

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- ▶ Canada Jobs Fund
- ▶ No major changes to SR&ED except retreat on contingency fees for 3<sup>rd</sup> party filers
- ▶ Restatement of the strategic shift from indirect to direct measures for innovation support
  - ▶ Pilot of the IRAP Voucher Program - \$20M over 3 years
  - ▶ FedDev funding renewal and the creation of an Advanced Manufacturing Fund (\$200M over 5 years)
  - ▶ Sustainable Development Technology Canada (\$325M/8 years)
  - ▶ Genome Canada (\$165M for 2014-15)
  - ▶ SADI (\$1B/5 years)



# What Can ME Companies Do?

- ▶ What is your company plan to address the 10-30% reduction in the federal ITC's from SR&ED?
  - ▶ Unbundle contractor spend:
    - ▶ buying materials directly
    - ▶ conducting trials directly
    - ▶ acquiring soft tools and prototypes directly
  - ▶ Unbundle work with universities into a Third Party Payment
  - ▶ Directly claim tangible property costs as materials or as directly related and incremental costs

# What Can ME Companies Do? [cont.'d]

- ▶ Identify more projects or costs
- ▶ Switch to itemised overheads
- ▶ Secure a higher percentage upon audit
- ▶ Focus on better outcomes with the new SRED Claim Review Process and new T661 Form from the CRA
- ▶ Find another government program

# The New T661 – 3 criteria to 5 Questions

## The Five Questions “Summarized”

1. Is there a scientific or technological uncertainty?
2. Was a hypothesis formulated specifically aimed at reducing that uncertainty?
3. Was the procedure adopted consistent with the scientific method?
4. Did the work result in advancement?
5. Was a detailed record kept?

## Original Criterion per the CRA

1. Scientific or technological uncertainty
2. Scientific and technical content
3. Scientific and technical content
4. Scientific or technological advancement
5. Scientific and technical content



# Your Next Steps

 **ERNST & YOUNG**  
*Quality In Everything We Do*



# Thank You

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