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A Tax Credit That's Often Overlooked

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A Tax Credit That's Often Overlooked



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Are you overlooking a potential source of cash for your small business?

If you haven't considered whether any of your business' activities qualify for research and development tax credits, you may be missing out. You may think of research and development as something big companies with laboratories full of white-coated scientists do, but if you're investing in technology or developing new or improved products or processes for your business, you may be eligible to claim refundable R&D tax credits.

Canada's R&D tax incentives are among the most generous in the world and they're especially favourable for small businesses. Each year, the R&D program provides more than \$4-billion in tax credits to more than 18,000 claimants, 75% of which are small businesses.

Under the federal R&D rules, "Canadian-controlled private corporations," which must be resident in Canada and not controlled by any combination of non-residents or public corporations, can be eligible for a refundable tax credit (payable even if the company has no tax to pay) of 35% of their qualifying R&D costs. Other corporations can earn a non-refundable credit of 20% of qualifying costs.

These qualifying costs include salaries and wages, materials, purchased or leased machinery and other equipment, overhead costs and certain contract payments for R&D work.

Any activity your business carries out that is integral to the development of a new product or process may qualify, even if the product or process does not end up being commercially viable.

A wide variety of activities in different types of businesses may qualify.

For example, I've seen eligible R&D in industries ranging from food and consumer products to high-tech information, communication and video games, to auto parts and engineering.

The list is lengthy but the common theme is that where there is innovation, R&D tax credits are likely waiting to be claimed.

For example, a small startup company I know of has about 15 employees and was developing a new construction supply product to break into a mature market. They knew that to be successful they would have to offer a cheaper product

than the competition that would also meet and outperform all criteria of the existing marketplace options.

Their efforts to develop this low-cost, high-performance product with special features involved three projects in which they spent about \$1.2-million (including labour, materials, contractors, leases and capital equipment) that wound up being eligible for R&D credits, resulting in a refund of almost \$500,000.

This refund allowed the company to invest in further research to develop a new material in partnership with a local university, sharing equipment and staff for both parties' benefit.

Taking the time to file an R&D tax credit claim helped take a small startup business and its research to the next level, benefiting both the company and a university.

Of course, Canada Revenue Agency often reviews R&D claims, and this company was no exception. The company's documents and prototypes, along with their commitment to their developmental efforts and challenges they overcame, satisfied the CRA and the claim was accepted as filed.

If your company is considering an R&D claim, it's helpful to keep track of the time your employees spend working on R&D projects and make sure the work is well documented to support your claim.

Along with the federal credit, your business may also be able to take advantage of provincial R&D tax credits offered in British Columbia, Alberta,

Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and Newfoundland. When provincial credits are included, the after-tax cost of \$1,000 spent by a small business on R&D can generally range between \$180 in Quebec, \$272 in Ontario and \$315 in British Columbia.

To make a claim, you will have to file an income tax return and some specific forms available from the CRA. The deadline is 18 months from the end of the tax year in which your business incurred the expenses.

Of course, you don't have to wait until the deadline to file your claim. The CRA aims to process refundable claims within 120 to 240 days after receiving them but sometimes does so even sooner. For example, I have seen some companies receive their refunds ranging from \$100,000 to \$500,000 in as little as one to five weeks after filing their claims.

Although it takes doing some additional paperwork, it can definitely be worthwhile for your small business to claim any R&D tax credits it is eligible for because claiming these credits can reduce the company's tax burden and give its cash flow a significant boost – two things that are always welcome in any business, large or small.

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