

ARTICLE REPRINT

A Tax Credit That's Often Overlooked

AUTHOR: BOB WATERWORTH, KPMG ENTERPRISE, TORONTO
 THIS ARTICLE WAS ORIGINALLY PUBLISHED IN THE *FINANCIAL POST* ON AUGUST 2010



Bob Waterworth
 is an
 Associate Partner
 in R&D Tax with
 KPMG Enterprise
 in Toronto.



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.

KPMG Enterprise™ is a network of professionals devoted exclusively to serving the needs of private companies in Canada. For further information about how KPMG Enterprise can help private companies, visit www.kpmg.ca/enterprise.

Abbotsford 604-854-2200	Hamilton 905-523-8200	Montréal 514-840-2100	Saint John 506-634-1000	Vernon 250-503-5300
Burnaby 604-527-3600	Kamloops 250-314-5960	North Bay 705-472-5110	Saskatoon 306-934-6200	Victoria 250-480-3500
Calgary 403-691-8000	Kelowna 250-979-7150	North York 416-228-7000	Sault Ste. Marie 705-949-5811	Waterloo 519-747-8800
Chilliwack 604-793-4700	Kingston 613-549-1550	Ottawa 613-212-5764	St. Catharines 905-685-4811	Windsor 519-251-3500
Edmonton 780-429-7300	Lethbridge 403-380-5700	Penticton 250-492-8444	Sudbury 705-675-8500	Winnipeg 204-957-1770
Fredericton 506-452-8000	London 519-672-4880	Prince George 250-563-7151	Toronto 416-777-8500	
Halifax 902-492-6000	Moncton 506-856-4400	Regina 306-791-1200	Vancouver 604-691-3000	

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity.

© 2010 KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. 4929