SR&ED Newsletter
Edition 2012 –2
March 29, 2012 Budget summary

Welcome to the second 2012 edition of our newsletter regarding recent developments to Scientific Research & Experimental Development (SR&ED) project management & tax credit claims.

Contents

Summary of SR&ED changes

SR&ED changes in March 29 ,2012 Federal budget

Year change proposed to start (prorate)	2012 current	2013	2014 full effect
1) Federal ITC rate (non-CCPC)	20	20	15
2) Subcontractor costs (% eligible)	100	80	80
3) Rate to calculate proxy (overhead)	65	60	55
4) Capital equipment (% eligible)	100	100	0

Summary of the changes

The federal government released it budget on March 29, 2012 including 4 minor changes to the SR&ED tax credit program.

These changes are summarized above.

The actual legislation (Notice of Ways & Means Motion) has also been reproduced on the next page.

Author's commentary:

Overall these changes appear relatively modest based on the media buildup and proposals of various S&T reports.

What was not said – items for 2013+ budgets

Of interest were many of the issues raised by various SR&ED reports which were not addressed in this specific budget but may appear in 2013 onwards.

A survey (link to complete the survey) was conducted by the RDBASE.NET Consortium of SR&ED practitioners to

- inform stakeholders of these changes
- gather input & opinions

These results are summarized in

- **SR&ED newsletter 2012-1 &**
- **related presentation.**

NWMM – Federal Budget, March 29, 2012

Scientific Research and Experimental Development Program[1]

(20) That,

(*a*) for taxation years that end after 2013, the reference to "20%" in paragraph (*a.1*) of the definition "investment tax credit" in subsection 127(9) of the Act be replaced with "15%", except that for taxation years that include January 1, 2014, it shall be read as a reference to the percentage that is the total of

> (i) 20% multiplied by the proportion that the number of days that are in the taxation year and before 2014 is of the number of days in the taxation year, and

> (ii) 15% multiplied by the proportion that the number of days that are in the taxation year and after 2013 is of the number of days in the taxation year;

(*b*) for taxation years that end after 2013, the reference to "15%" in subsection 127(10.1) of the Act be replaced with "20%", except that for taxation years that include January 1, 2014, it shall be read as a reference to the percentage that is the total of

> (i) 15% multiplied by the proportion that the number of days that are in the taxation year and before 2014 is of the number of days in the taxation year, and

> (ii) 20% multiplied by the proportion that the number of days that are in the taxation year and after 2013 is of the number of days in the taxation year;

(*c*) for expenditures incurred after 2012, subparagraph (*a*)(ii) of the definition "qualified expenditure" in subsection 127(9) of the Act be amended to include only 80% of an expenditure that

> (i) would otherwise be included under that subparagraph,

> (ii) is for scientific research and experimental development performed for or on behalf of the taxpayer by another person or partnership with whom the taxpayer deals at arm's length, and

> (iii) has been reduced to exclude any amount of a capital nature incurred by the other person or partnership in the performance of the scientific research and experimental development;

(*d*) the percentage at which the prescribed proxy amount, for a taxation year, referred to in paragraph (*b*) of the definition "qualified expenditure" in subsection 127(9) of the Act is calculated be, for taxation years that end after 2012, the percentage that is the total of

> (i) 65% multiplied by the proportion that the number of days that are in the taxation year and before 2013 is of the number of days in the taxation year,

> (ii) 60% multiplied by the proportion that the number of days that are in the taxation year and in 2013 is of the number of days in the taxation year, and

> (iii) 55% multiplied by the proportion that the number of days that are in the taxation year and after 2013 is of the number of days in the taxation year;

> and

(*e*) for expenditures made by a taxpayer after 2013,

> (i) section 37 of the Act be amended to exclude an expenditure in respect of the use or the right to use property that would, if it were acquired by the taxpayer, be capital property of the taxpayer,

> (ii) paragraph 37(1)(*b*) of the Act be repealed,

> (iii) subparagraphs (*a*)(i) and (iii) of the definition "qualified expenditure" in subsection 127(9) of the Act be repealed, and

> (iv) section 127 of the Act be amended to exclude from the SR&ED qualified expenditure pool an expenditure in respect of the use or the right to use property that would, if it were acquired by the taxpayer, be capital property of the taxpayer.

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[1] Federal Budget 2012 Notice of Ways & Means Motion
http://www.budget.gc.ca/2012/plan/anx4-2-eng.html

Questions or feedback

We welcome your questions or feedback on any issues raised in this letter.

We also encourage interested parties to examine:

➢ past SR&ED newsletters

➢ SR&ED tax guide [the Guide to RDBASE.NET],

➢ "RDBASE.NET" online SR&ED tracking software &

➢ additional tutorials re. eligible SR&ED activities at

www.rdbase.net

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Although we endeavor to ensure accurate & timely information throughout this letter, it is not intended to be a definitive analysis of the legislation, nor a substitute for professional advice.

Before implementing decisions based on this information, readers are encouraged to seek professional advice, in order to clarify how any issues discussed herein, may relate to their specific situations.

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