

Budget 2019 Has Good News on R&D Tax Credits

- Taxable income expenditure limit grind to be eliminated
- More SR&ED ITCs for profitable CCPCs
- Knock-on benefits for some provinces

Canada's 2019 - 2020 federal budget tabled by federal Finance Minister Bill Morneau on March 19 included a positive change to the Scientific Research and Experimental Development (SR&ED) tax credit program.

At present, Canadian Controlled Private Corporations (CCPCs) are eligible to receive SR&ED investment tax credits (ITC's) at a rate of up to 35%, 100% of which can be in the form of a cash refund. However, if in the prior taxation year either the corporation's taxable income exceeds \$500K or its taxable capital exceeds \$10M, that 35% can be effectively ground down to as low as 15%, only 40% of which is in the form of a cash refund.

Budget 2019 proposes to eliminate the taxable income grind such that CCPCs with income exceeding \$500K in the prior tax year remain eligible to receive SR&ED ITCs at the 100% refundable 35% rate. This change would take effect for taxation years that end after March 18, 2019. The taxable capital grind, however remains in effect.

Although this is federal legislation, it has a significant positive knock-on effect in some provinces (most notably B.C. and Ontario), where the provincial R&D tax credit suffers the effects of the federal taxable income / taxable capital grinds. For example, at present an Ontario corporation with a prior year taxable income of \$800K would not be eligible to receive any of the 8% Ontario Innovation Tax Credit. As a result of the proposed changes in the 2019 federal budget, that corporation would remain eligible to receive up to \$300K in the form of a cash refund.

Learn More

Multimedia presentation with detailed explanation of the expenditure limit concept and taxable income / taxable capital grinds.

NB: Due to legislative changes that occurred after this production, references to federal ITC rate of 20% in this presentation should be read as 15% and references to OITC rate of 10% should be read as 8%.

<https://www.youtube.com/watch?v=m1Q5YjVd9YA>

About Scitax

Scitax Advisory Partners LP is a Canadian professional services firm with specialist expertise in all aspects of planning, preparing and defending Scientific Research and Experimental Development (SR&ED) tax credit claims.

We offer a multi-discipline team of engineers, chartered accountants and tax lawyers to ensure that your SR&ED issues are covered from every angle.

While we normally work in concert with our client's existing accountants, our affiliated tax-dedicated chartered accounting firm - Cadesky Tax - is an expert resource for advice on any taxation matter such as may arise either during the planning and preparation of your claim or while dealing with CRA afterwards.

In addition to planning and preparing new claims, we also engage on claims that have been challenged by CRA auditors or that have received negative assessments for either scientific or expenditure eligibility. If a satisfactory settlement cannot be achieved with CRA at the local office level, we will appeal your assessment through either Notice of Objection or Tax Court of Canada procedures with the assistance of our affiliated firm of tax lawyers.



Celebrating ten years



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