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## Canada's 2012 Federal Budget

### Cuts to SR&ED program less than expected . . . . .

Canada's 2012 Federal budget tabled on March 29<sup>th</sup> 2012 proposes the following changes to Canada's SR&ED tax credit program. In general the scope and impact of these changes is far less than what many had anticipated based on the Jenkins's panel recommendations. It is important to note that in provinces where the expenditures eligible for the provincial R&D tax credit are defined as being the same as the federal (e.g. Ontario), these changes will result in a proportionate reduction in the provincial benefits.

- The general SR&ED ITC benefit rate (e.g. for non-CCPC corporations, individuals and partnerships) will be reduced from 20% to 15%. This change applies to tax years ended after 2013. For tax year ends that include 1-Jan-2014, the 5% cut will be pro-rated based on the number of days in that tax year after 2013. There is no change to the high rate (i.e. 35%) benefit allowed to qualifying CCPCs (Canadian Controlled Private Corporations) nor is there any change to the existing parameters of cash refund allowed to CCPCs.
- Capital Expenditures (e.g. equipment) will no longer attract SR&ED benefits. This change applies to expenditures for capital items or lease payments after 31-Dec-2013.
- Proxy Overhead will be reduced from 65% to 55%. This change will be phased in such that for calendar years ending 2013 the proxy rate will be 60% and for calendar years ending 2014 and later it will be 55%. For tax year ends starting 2012 that are not aligned to calendar (i.e. non-December YE's), a "blended" proxy rate will be calculated by using a pro-rating formula.
- The eligibility of payments to Arm's Length Subcontractors will change such that only 80% of the amount paid will attract SR&ED benefits. At present 100% of such payments attract SR&ED. There is no change to the eligibility of payments to non-Arm's Length Subcontractors for whom only the actual cost paid out by the subcontractor (e.g. as wages to its employees) attracts SR&ED. This change applies to expenditures incurred (not tax years ending) after 31-Dec-2012.
- The Notice of Objection process will be expanded to include a process for second review of CRA's science eligibility rulings. It is not clear if this will involve review by an external agency or dedicated objection science branch and if not, how it will be different from the existing process.
- The federal government will undertake a study of contingency (success) fee billing arrangements by which tax advisors charge for SR&ED services based on a % of the allowed benefit. At this time there is no proposal to ban or limit contingency fee arrangements.

## Learn More....

Full text of Canada's federal budget for 2012-13  
<http://www.budget.gc.ca/2012/plan/toc-tdm-eng.html>

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## 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 and Associates LLP – 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.



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