

Another Expert Panel Touches SR&ED

New report suggests radical changes

New leader re-boots SR&ED directorate

There are signs that Canada's Scientific Research and Experimental Development ("SR&ED") tax credit program could be headed for some significant changes. These include new "head office" management and some radical suggestions from a panel of industry leaders appointed by the federal government to offer guidance on long term economic development strategies.

It is not hard to imagine that the lingering threat of international trade upsets coupled with the obliteration of Canada's long-vaunted "tax advantage" by President Trump's cuts to U.S. tax rates are motivating Ottawa's interest towards new ways of preserving and adjusting strategic sectors of the economy.

Prior to the U.S. cuts, Ottawa seemed poised for a shift away from tax credits toward so-called "direct funding" (grants, loans) as a way of incentivising strategic industries. However, industry typically regards such direct funding programs as overly complex; whereas tax-based mechanisms are well understood and relatively easy to use.

R&D tax credits are a proven, highly effective way of quickly compensating specific industrial sectors for unfavourable taxation without incurring the public wrath likely to accompany a general cut in corporate tax rates. Furthermore such tax credits are relatively easy to turn on and off should circumstances change, whereas resetting a general corporate tax cut could take years.

Industry Leaders Offer Radical Suggestions for SR&ED Tax Credits

The industry leaders have been assembled through an initiative Ottawa has dubbed "*Canada's Economic Strategy Tables*". "Tables" is plural because the group is divided into sector specific sub-group "panels" of individuals, drawn from leading companies in six different areas: advanced manufacturing, agri-food, health/bio-sciences, clean technology, resources of the future, and digital industries. One is reminded of a similar effort by the Stephen Harper's Conservative Government, the so-called "Jenkins Panel" back in 2011. While the Jenkins report was authored by three persons from industry and three from academia, the Tables leaders are all from industry.

At least one of these groups – led by Shopify founder Tobias Lutke – has weighed in with some suggestions for radical changes to Canada's system of R&D tax credits ("SR&ED"). Specific recommendations on SR&ED include:

A "Hypergrowth Passport" which seems to connote some form of pre-approval certificate that would give selected companies automatic (or at least accelerated) access to government funding – which presumably could include SR&ED since CRA is identified as the administrator.

Under "Modernize SR&ED Tax Credits" suggestions include allowing "low-performing" companies "to fail in order to free up valuable talent and tax dollars" – which sounds like eliminating refundable ITCs for companies that are not profitable. Other recommendations include allowing SR&ED to include commercialization, "simplified eligibility" for hypergrowth companies, and ensuring that the type of R&D done by digitally based firms is eligible.

Change of Command

Meanwhile at SR&ED Directorate headquarters in Ottawa, a new Director General has been appointed. His name is Jason Charron and he comes to the CRA from the National Research Council where he was executive director of IRAP (Industrial Research Assistance Program). While Mr. Charron is a CPA CA by training, his experience with the NRC should make him well acquainted with industrial research.

Positive changes are already apparent: Fresh faces are appearing in regional management posts. A new team of national sector-specialists has been assembled to better coordinate how the agency handles claims on an industry basis. Noting that claims from software developers are generating a disproportionate number disputes both in objections and in the tax court, the agency is conducting a series of full day ICT sector seminars across the country. Although the CRA has tried this before (most recently in January 2017), the quality (content and delivery) is vastly superior to previous attempts. The recent SR&ED Symposium day sponsored by CPA BC included plenary sessions supported by senior well-qualified CRA staff.

Some intriguing announcements emerged from the CPA BC event:

- CRA will shortly adopt a "no news = good news" approach to SR&ED assessments. The gist of this seems to be that hearing nothing to the contrary from CRA within 200 days after filing, means a taxpayer can assume their SR&ED claim has been accepted as filed.
- CRA intends to implement a wide array of computer automated methods for expediting the assessment of SR&ED claims. Amongst other measures, artificial intelligence was mentioned as one possible approach. This is not altogether surprising given the "new" t661 released by CRA back in 2008 was made vastly more "data-centric" compared to earlier versions with the addition of tick boxes for a wide range of parameters potentially useful for eligibility screening.

Learn More

Draft report (undated) of Digital Industries table. Scroll down to see the SR&ED proposals in yellow highlight on pages 6 & 7 of the PFD:

http://scitax.com/pdf/Report_from_Canada's_Economic_Strategy_Tables-Digital_Industries-Economic_Strategy_Tables_B.pdf

List of "Tables" experts:

<http://www.ic.gc.ca/eic/site/098.nsf/eng/home>

Scitax analysis of Jenkins panel recommendations:

<http://scitax.com/pdf/bul-048.pdf>

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.



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