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## Alberta's Generous New R&D Tax Credit

### **No Strings Attached – 10% Cash Refund Benefit to all Companies**

Most Canadian provinces have their own R&D tax credit schemes that augment the federal SR&ED benefit. Despite its booming economy, Alberta has been one of the few Canadian provinces – along with tiny Prince Edward Island – that didn't.

However in early June of this year Alberta premier Ed Stelmach changed that when he announced the Alberta Action Plan; a package of economic development incentives aimed at technology business. In addition to the tax credit, the plan includes various measures such as a government-sponsored venture capital agency seeded with \$100M and a “technopreneurship” program aimed at specifically at youth.

All of these provincial incentives work essentially the same way, i.e., by paying some additional percentage on whatever expenditures attract the federal SR&ED credit. However, comparing them is not as straightforward as it might seem. The salient criteria for a meaningful comparison are:

- > **The nominal benefit rate:** The federal rate ranges from 20% to 35%. At present, the provincial maximum rates are: 10% in (Ontario, B.C. and in 2009, Alberta), 15% (New Brunswick, Newfoundland, Nova Scotia, Saskatchewan, Yukon), 20% (Manitoba) and 37.5% (Quebec).
- > **Eligible expenditures same as Canada?** The Canadian federal SR&ED credit applies to wages, contract payments, materials, R&D equipment and overhead. However, when it comes to provincial credits, not all of these expenditures are fully eligible. For example, Quebec's 37.5% rate applies only to labour; not to materials, equipment and overhead all of which are eligible in other provincial schemes. Ontario covers all of the same expenditures as Canada except that only 40% of R&D equipment expenditures attract the Ontario benefit.

- > **Is it refundable?** Ideally the benefit is paid in cash regardless of taxable income. The less desirable alternative is an investment tax credit that acts to reduce tax payable which is only useful for companies that are taxable in the first place. This consideration is of key importance, since Canada is one of the very few countries to offer a refundable R&D tax credit.
- > **Carry-forward and carry-Back periods:** If the benefit is an investment tax credit, can it be “saved” for a future year when taxes are due, or can it be applied retroactively against taxes previously paid in years gone by? Three years back and ten years forward are most common except for New Brunswick and Nova Scotia which are three years back and seven years forward. Starting in 2008 Ontario will offer three years back, twenty forward.
- > **Public or private entity?** As a general rule Canada’s R&D tax credit system is more generous to Canadian owned privately owned companies (“CCPCs” than public and or foreign owned companies. Canada gives CCPC a refundable benefit of 35% (versus 20% non-refundable for others). But this is not always true at the provincial level, the provinces do not typically discriminate by ownership or structure: For example, Ontario pays its 10% benefit as a cash refund to all companies public or private regardless of ownership.
- > **Ceilings and limits:** Three types of constraints apply – albeit in different measure – to both federal and provincial R&D tax credits. The first is the taxable income threshold – often expressed in relation to the “small business limit” or SBL – above which the benefit rate is either ground down or eliminated altogether. The second is the amount of taxable capital in the company. While the third is on the expenditure itself. For example in Ontario, at present the expenditure limit is \$3M, while the taxable income grind starts at \$400K and goes to \$700K. This means that an Ontario company with eligible R&D expenditures of \$5M and taxable income of \$400K would get a benefit of \$300K ( $\$3M \times 10\%$ ), however if that same company had taxable income of over \$600K it would not be eligible for any benefit at all. There are some rather complex rules that govern how these limits apply between multiple companies in an “associated” group with common ownership.

Alberta’s new provincial credit is far richer than its nominal 10% rate might suggest: First, because it pays a cash refund of to all companies regardless of ownership or taxable income. Second because it applies to the exact same expenditures as attract the Canadian federal credit (i.e. no cuts on equipment, overhead etc.). And finally, because its \$4M expenditure limit is the highest. Taken together, these three factors combine to make Alberta very nearly the most generous place in Canada for R&D tax credits. Although Quebec’s 37.5% wage credit, seems hard to beat, it’s of limited use to companies whose R&D activities involve significant expenditures on anything other than labour.

## Learn More...

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- > Alberta Government's "Action Plan" webpages start at:  
[http://www.advancededucation.gov.ab.ca/technology/wwwtechnology\\_esp/techprior/techcomm/ActionPlan/actionplan.asp](http://www.advancededucation.gov.ab.ca/technology/wwwtechnology_esp/techprior/techcomm/ActionPlan/actionplan.asp)
- > A table showing provincial R&D tax credit benefits is found on page 6 of the Canadian government report "The Advantages of Doing Research in Canada 2008-09" which is available at:  
<http://www.investincanada.gc.ca/download.asp>

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## About Scitax...

Scitax Advisory Partners is a professional services firm with specialist expertise in Scientific Research and Experimental Development (SR&ED) tax credits.

We offer a team of senior technical consultants all of whom have ten or more years experience in the SR&ED field. All Scitax technical consultants have engineering or science backgrounds and at least twenty years industry experience in their particular field prior to consulting.

Our primary function is to produce a technical submission package that most effectively communicates your SR&ED claim to CRA in a way that highlights eligibility and expedites processing. We assist you in identifying and preparing all required documentation including project technical descriptions, cost schedules, and everything else your tax preparer needs to file the claim. Once your claim is filed, Scitax will advocate for you with CRA and help you negotiate fair settlement of your claim.

While we normally work with our client's existing tax advisors, our affiliated firm Cadesky and Associates can provide a full package of tax services if required.



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