



IWASAN
CONSULTING



SR & ED Update – Iwasan's Newsletter

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Iwasan Introduces Shaun McLoughlin, B.Sc. Technical Consultant

It is with great pleasure that I am writing this – my first article for IWASAN Consulting. In February 2004 I was hired by IWASAN as their in-house technical writer to compliment the many other expert technical consultants on staff. Unlike the technical consultants in many firms, I will be working from the same office as the rest of the staff and I am devoting 100% of my time to your SR&ED claims. This will provide an increased service to you the client and allow for more time to be spent on the smaller details of the technical report. In the end this will result in more claims being processed without the hassle of science or technical reviews.

In joining IWASAN I bring a broad scientific and technical knowledge, but my expertise is in the fields of biology and forestry. I completed my Bachelors of Science from the University of British Columbia and then worked in the fisheries industry, performing research studies for both private companies and government agencies. I have also worked throughout the coastal British Columbia forest industry doing forest engineering and silviculture.

In putting together a technical report to submit to the Canada Revenue Agency (CRA) there are a number of questions that I will need you to answer in order to familiarize myself with your project(s). The following is a sample:

1. What is the existing technology that you are looking to improve and why?
2. What were the over-all technical objectives of the project?
3. What is the advancement in technology being sought?
4. What were the technological risks/uncertainties that had to be overcome to develop the advancements?
5. What were the activities performed throughout the fiscal year?
6. What stage was the project at by the end of the fiscal year?
7. What work/objectives are to be accomplished in the next fiscal year?

If you can think about these questions before beginning an SR&ED claim, it will free up valuable time for yourself. I can also help you to implement this thinking into your R&D activities thus leaving you prepared for the future. Call me to discuss how we might work together on your SR&ED project reports.

Recapture Rules

With the introduction of the "recapture" rules at CRA we see a different methodology in place to handle claims for projects where the outcome of the SR&ED is uncertain and therefore the eligibility of the project expenditures is difficult to determine at fiscal year end, particularly where the project is incomplete. The recapture rules allow for all project costs, including materials and components that are incorporated or transformed into the prototype, to be claimed in the period

and then recaptured in a subsequent period. However, recapture only occurs where the prototype is used commercially or sold.

This eliminates the need to make a judgement call in the period purchased as to what the eventual future of the item may be. As most developers are optimistic about the success of the project, it is hard to see that what they are paying for and optimistically working toward in this period may end up scrapped in a future fiscal period. Not claiming it means lost SR&ED expenditures, as it must be claimed in the period purchased.

These rules however, are not being used on retroactive claims. While the legislation does not distinguish between claims filed for prior periods and claims made on a current basis, the officers at CRA are of the opinion that where you "know" what the outcome of the project is when making the claim, the recapture rules do not apply. This conservative approach by CRA creates a disparity where claims are made later and as such is more encouragement to companies to file on a "current" rather than retroactive basis.

Effectively, the benefit lost is that some costs that may otherwise be subject to depreciation and partial write-off each year are 100% written off in the SR&ED pool. As well, there is the ITC applicable to these costs. While these are more timing issues, it is always more beneficial to have the money in your account.

Iwasan Can Help

We are SR&ED specialists. We will conduct an initial assessment of your company's claim potential, free of charge. You can also look to us for the following full range of services:

- preliminary technical evaluation of the claim potential by an industry specialist
- financial reports prepared by a chartered accountant
- technical reports prepared by industry experts
- claim management handled by consultants who deal exclusively with SR&ED claims

Call us today for a free assessment.

Shaun's TIP: Remember in your planning stages to identify the risks or ways that your project could fail. Later when you do business plans you'll purposefully forget this – so document it early, we'll need to remember it for the SR&ED report.