

RESEARCH AND DEVELOPMENT TAX CREDIT SASKATCHEWAN

Research and Development Tax Credits are offered up to companies to encourage businesses of all sizes and in all sectors to conduct research in Canada and Saskatchewan. Two separate programs exist. They are:

A. Federal Investment Tax Credit (ITC)

Investment tax credits (ITCs) can be earned for qualifying current scientific research and experimental development expenditures (SR&ED). The ITC rates and the percentage that can be refunded or credited vary according to the way the business is structured.

The following outlines the ITCs and the refundable rates that apply to qualified SR&ED expenditures.

Investment Tax Credit Rates						
Category	SR&ED expenditures	ITC rates	Refundable portion of ITC settled on		Non-refundable portion of ITC earned on	
			Current Expenditures	Capital Expenditures	Current Expenditures	Capital Expenditures
Canadian controlled private corporations (CCPCs)	Up to your calculated Expenditure Limit	35%	100%	40%	N/A	0.0%
	In excess of your calculated Expenditure Limit	20%	40%	40%	0.0%	0.0%
Other corporations		20%	N/A	N/A	100%	100%
Proprietorships, partners of a partnership and trusts		20%	40%	40%	0.0%	0.0%

Canadian Controlled Private Corporations (CCPC). A foreign corporation can set up a CCPC in Canada as long as it owns 50% or less of the company's shares and the shares do not have any special rights attached to them. Traditionally, non-residents set up CCPCs in Canada by having a Canadian investor such as a venture-capital firm or research institution hold the remaining shares.

- A Canadian Controlled Private Corporation with taxable income of less than \$500,000 will receive 35% refundable ITC if they have less than \$10 million in taxable capital and less than \$3 million in qualifying expenditures.
 - The expenditure limit (\$3 million maximum) is based on the previous year's taxable income and previous year's taxable capital.



- The expenditure limit is reduced when taxable income from the prior year exceeds \$500,000 and becomes zero at \$800,000.
- The expenditure limit is also reduced when taxable capital exceeds \$10 million and becomes zero when taxable capital reaches \$50 million.
- ITCs earned on expenditures exceeding the limit are calculated at 20% and may be partially refundable under certain conditions.

Other corporations are eligible at a 20% rate. A foreign parent can form a Canadian subsidiary to carry out qualifying SR&ED activities in Canada and, through deducting the expenditures and claiming the 20% tax credit, the subsidiary can significantly reduce or even eliminate Canadian taxes payable. The foreign parent can contract the Canadian subsidiary to carry out the SR&ED activities on their behalf, in which case the foreign parent will own the rights to the SR&ED, and the Canadian subsidiary can still make use of the SR&ED tax incentive program. If the company is controlled by foreign ownership, no portion is refundable.

Partnerships, trusts, etc. can earn tax credits equal to 20% of qualified expenditures for SR&ED conducted inside Canada.

Illustration of the federal ITC on \$5 million of qualified SR&ED expenditures:					
	SR&ED Expenditures	Credit Rate	% Refund	Refundable Tax Credit (Cash Back)	Non-refundable Tax Credit (Reduce Taxes)
Small CCPC	First \$3 Million	35%	100%	\$1,050,000	-
	Remaining \$2 Million	20%	40%	\$160,000	\$240,000
Total				\$1,210,000	\$240,000
Large Public or Foreign Controlled Corporation	First \$3 Million	20%	-	-	\$600,000
	Remaining \$2 Million	20%	-	-	\$400,000
Total				-	\$1,000,000

B. Saskatchewan Research and Development (R&D) Tax Credit

- 15% refundable after March 18, 2009.
- No limit on provincial R&D tax credit.
- All corporations are eligible for 15% as long as the company is registered to do business in Saskatchewan and R&D expenses are incurred in Saskatchewan.

C. ITC/R&D Program Details

The Saskatchewan Research and Development (R&D) Tax Credit works in conjunction with the Federal Investment Tax Credit (ITC). It applies as follows:

Eligible Work

- Basic Research
- Applied Research
- Experimental Development
- Certain Support Activities
- Other activities as qualified by Canada Revenue Agency

Ineligible Work

- Market research or sales promotion
- Routine testing & quality control
- Prospecting, exploring and drilling
- Research in social sciences/humanities
- Other activities as identified by Canada Revenue Agency

Eligibility Requirements

For any research and development work to be eligible, it must include all of the following:

- Be a systematic investigation or search
- Carried out in the a field of science or technology that is not excluded
- Carried out by means of experiment or analysis in a field of science or technology performed by qualified individuals
- Undertaken either for the purpose of achieving technological advancement OR for advancing scientific knowledge.

Qualifying Expenditures

1. Labour
2. Overhead (*2 methods of calculation: proxy or traditional*)
 - *Proxy - percentage of directly engaged SR&ED salaries claimed in lieu of actual SR&ED overhead.*
 - *Traditional – specifically identify actual overhead*
3. Material
4. Subcontract payments
5. Certain capital expenditures (all or substantially all for R&D)
6. Third Party Payments (universities, associations, etc.)

The benefit to be received from the ITC and Saskatchewan R&D credits produce a combined rate of recovery of 44.75% of eligible research and development costs.

Example: Small Private Corporation (taxable income for the previous year is 500,000 or less and taxable capital less than \$10 million) using the proxy method for overhead			
Simplified Research and Development ITC and Sask. R&D Calculation – Proxy Method			
R&D Salaries		\$60,000	
Materials		\$20,000	
Subcontractor Fees		\$10,000	
R&D Capital		\$10,000	
Total R&D Expenditure		\$100,000	
Less: Government Funding ⁽¹⁾		\$10,000	
Net Qualifying expenses for deduction from Income		\$90,000	
Proxy Calculation: 65% of R&D salaries \$60,000 @ 65%		\$39,000	
Qualified expenditures for ITC & SK R&D		\$129,000	
Sask R&D Refund \$129,000 (15%)	15%	\$19,350	
ITC Credit ⁽²⁾ \$129,000-19,350 (35%)	35%	\$38,377	
Total R&D Refund		\$57,727	44.75%
			Combined Rate

(1) Provincial or Federal Government funding reduces the eligible qualifying expenses.

(2) The federal tax credit is reduced by the provincial tax credit received.

NB: The actual R&D tax credit for a CCPC will be dependent upon a number of variables outside of the scope of these examples. Please discuss with a representative from Saskatchewan to learn about your company's actual R&D tax credit opportunities.

SR&ED Eligibility Self-Assessment Tool

The SR&ED Eligibility Self-Assessment Tool is an online tool to help businesses determine if their projects might qualify for SR&ED tax incentives: www.cra.gc.ca/sred-assessment

Small Canadian-controlled Private Corporations Large Public or Foreign-controlled Corporations (January 2010)		
Province	Provincial SR&ED Credit Rate	Refundable
Alberta	10%	Yes
British Columbia	10%	Yes
Manitoba	20%	No
New Brunswick	15%	Yes
Nova Scotia	15%	Yes
Ontario ⁽¹⁾	10%+4.5%	Yes/No
Prince Edward Island	-	
Quebec ⁽²⁾	37.50%	Yes
Saskatchewan	15%	Yes

(1) Ontario non-refundable R&D Tax Credit of 4.5% is available as of January 1, 2009. Ontario Innovation tax credit of 10% is refundable and applicable to small public or foreign controlled corporations.
(2) In Quebec, only R&D wages are eligible for R&D tax credits, not materials, equipment or overhead.

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