

Improving the Accuracy and Timeliness of the Scientific Research & Experimental Development (SR&ED) Program

The SR&ED program is a federal tax incentive program, administered by the Canada Revenue Agency (CRA) that encourages Canadian businesses of all sizes and in all sectors to conduct research and development (R&D) in Canada. It is the largest single source of federal government support for industrial R&D (see <http://www.cra-arc.gc.ca/txcrdt/sred-rsde/bts-eng.html>).

In October 2010, the federal government announced the creation of a six-member expert panel to review federal support to R&D. In keeping with its mandate, the panel will provide recommendations on:

- What federal initiatives are most effective in increasing business R&D and facilitating commercially relevant R&D partnerships
- Is the current mix and design of tax incentives and direct support for business R&D and business-focused R&D appropriate
- What, if any, gaps are evident in the current suite of programming, and what might be done to fill the gaps.

Our proposals should be considered as part of, and in the context of the overall review of the program.

Currently any Canadian Controlled Private Corporation (CCPC) can apply for Scientific Research & Experimental Development (SR&ED) investment tax credits for expenditures such as wages, materials, machinery, equipment, some overhead and SR&ED contracts. The SR&ED tax incentive program is generally very well suited to the needs of industry. The SR&ED program assists companies to undertake financial risks typically associated with technological uncertainties. Yet despite being an excellent financial incentive tool for CCPCs and a crucial tool in eliminating these financial risks, the SR&ED program falls short in ensuring that claims are processed efficiently and effectively. The program execution and administration by the CRA requires review and refining to increase the timeliness and accuracy of SR&ED claim processing and maximize benefits to Canadian companies' research and development.

In today's fast paced, quick changing and very challenging economy, timely and accurate processing of SR&ED claims on an annual basis, corresponding to corporations' annual fiscal plans is highly critical for small- and medium-sized enterprises (SMEs). Late or poor SR&ED claim processing can have adverse and irreversible effects on SMEs, affecting CCPC's income, business plans, etc. Therefore, timely and accurate execution of SR&ED claims by the CRA is highly critical to the overall successes of Canada's research and development.

Furthermore, several consecutive annual SR&ED claims by CCPCs may be reviewed at one time in a single year by the CRA. Reduced or denied SR&ED claims from the past two years may dangerously accumulate liability of such claims, and may increase costs of such claims incurred by CCPCs which potentially may hinder current and future business.

Administration of the SR&ED program needs to reward and not hurt businesses as it serves a critical role in fostering and encouraging innovation and growth of Canadian corporations. A review of the program's execution and administration would prove valuable in increasing accountability and transparency, reducing fraudulent claims, and ensuring that businesses benefit from the SR&ED program through an efficient claim review process.

If the CRA developed an approach to SR&ED that mirrored the Canada Border Services Agency's Customs Self Assessment (CSA) program it could focus its attention on SR&ED claims made by claimants it does not know or deems high risk while expediting the processing of claims and issuance of payment from reputable claimants the CRA knows are legitimate. In short, to mirror the CBSA's CSA program, the CRA could establish a program which:

- Is client focused
- Requires CCPC's to follow specified policies and procedures in the preparation and submission of its SR&ED claims
- Allows the CCPC's to be audited and certified by the CRA as known and compliant with the program requirements
- Employs an Administrative Monetary Penalty System (AMPS) for non-compliance. An AMPS could be implemented by the CRA to secure compliance with a preferential SR&ED claim certification program through the application of monetary penalties. An AMPS would authorize the CRA to assess monetary penalties for non-compliance with a preferential SR&ED claim certification program requirements. Like the CBSA's AMPS regime, the CRA could impose monetary penalties based on the type, frequency, and severity of the infraction. Penalties should be graduated and take the compliance history of the client into consideration.

Recommendations

That the federal government, and specifically the CRA:

1. Establish a "SR&ED Claim Certification Program" that CCPC's can voluntarily apply to.
2. Set up a specific department (from within existing structure) to work with CCPCs that are certified to the "SR&ED Claim Certification Program".
3. Set up a preferential and expedited claim and payment process for CCPCs that are certified to the "SR&ED Claim Certification Program", allowing claims to be processed within a guaranteed first three months of CCPCs fiscal year.
4. Establish an Administrative Monetary Penalty System that promotes compliance for CCPCs that are certified to the "SR&ED Claim Certification Program".