



Canada Customs  
and Revenue Agency

Agence des douanes  
et du revenu du Canada

December 3, 2002

# Monitoring the Performance of the Administration of the SR&ED Program — Survey Results

Scientific Research and Experimental  
Development Program  
Canada Customs and Revenue Agency

## Contents

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|     |  |    |
|-----|--|----|
| 1.0 | Executive Summary .....  | 1  |
| 2.0 | Introduction .....   | 3  |
| 3.0 | Methodology .....  | 4  |
| 3.1 | Web survey .....   | 4  |
| 3.2 | Case studies.....  | 4  |
| 4.0 | Web Survey Findings.....   | 6  |
| 4.1 | Demographics on respondents .....                                      | 6  |
| 4.2 | Respondents view on CCRA's on-site review of their company's claim.... | 8  |
| 4.3 | Views today of the SR&ED Program .....                                 | 12 |
| 5.0 | Case Study Findings.....   | 17 |
| 5.1 | Demographics on respondents .....                                      | 17 |
| 5.2 | CCRA SR&ED services.....   | 18 |
| 5.3 | On-site review .....   | 20 |
| 5.4 | CCRA science advisor .....   | 25 |
| 5.5 | CCRA financial reviewer .....  | 26 |
| 5.6 | Claimant understanding .....   | 28 |
| 5.7 | Assisting Canadian companies in conducting SR&ED in Canada .....       | 29 |



## 1.0 Executive Summary

In the late 1990's, industry concerns about the consistency and effectiveness of the Scientific Research and Experimental Development (SR&ED) tax credit program led to a major effort by the Canada Customs and Revenue Agency (CCRA) to improve the agency's administrative practices for the program. A 13-step action plan was implemented by CCRA.<sup>1</sup>

A major industry association, the CATA Alliance, with the support of KPMG, conducted an initial survey in 1999 to find out industry's views on the administration of the SR&ED program. The survey focused on the software/telecommunications sectors, and the survey report was published in February 2000. While CCRA viewed this pilot study as providing useful information, the agency stated that it needed further development, e.g., to provide coverage of all industry sectors.

As a result, CCRA engaged KPMG Consulting in February, 2001 to develop a performance metric that would provide an annual "report card", based on feedback from a broad cross-section of Canadian-based companies, on the administration of the SR&ED Program. The goal of the study was to develop a methodology for gathering feedback from a broader cross-section of Canadian industry, but not to provide an undue burden on companies (the 1999 CATA survey involved in-depth telephone interviews). The study was also to implement the recommended methodology.

The study was divided into two phases. Phase 1 involved the development of the study methodology, which included the development of the Web survey instrument and the case study interview guide. Both survey instruments were developed by the tax panel from the accounting firm KPMG and in conjunction with SR&ED Program management. The survey instruments examined the experience of claimants in their recent audits, their perception of the assistance and guidance provided by CCRA, how well they understand CCRA's policies and practices, and their perception of fairness and professionalism of the process.

Phase 2 involved the conduct of the two surveys, which were carried out between July and November 2002. The Web survey gathered feedback from 306 companies, while the case studies involved interviews with 27 companies. The key findings from this study are as follows:

- Respondents were satisfied with the various services (e.g., Pre-claim Project Review Service (PCPR), Account Executive Service, Information Seminars) provided by CCRA to assist companies claiming SR&ED tax credits.
- Close to two-thirds of case study (61.5%) and Web-survey (61.1%) respondents indicated that the consistency of the CCRA review process has improved over the years.
- Approximately 81% of Web-survey respondents indicated that they were treated fairly by CCRA in its review of their SR&ED claim.
- Respondents were least satisfied with the following aspects of their review: turnaround time in CCRA's processing of their claim, and CCRA's advising if they were eligible for a larger credit than was initially claimed.

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<sup>1</sup> November 5, 1998, The Honourable Herb Dhaliwal, Minister of National Revenue releases Revenue Canada's action plan designed to improve its Scientific Research and Experimental Development (SRED) Program.

- A small percentage of Web-survey (2.9%) and case study (3.7%) respondents indicated that the relationship with the SR&ED Program staff has deteriorated over the years.
- The majority of respondents indicated that CCRA staff limit their role to their area of expertise. Approximately 88% of case study respondents agreed that their science advisor limited their role, while 95% indicated that their financial auditor limited their role to their area of expertise. This is a significant improvement from the 1999 CATA/KPMG pilot study.
- Items questioned most closely during financial on-site reviews were: time records (33.3%), treatment of materials consumed (29.6%) and treatment of contract payments received (29.6%).
- One-third (35.7%) of case study respondents did not find their financial reviewer to be helpful in explaining why expenditures did not qualify, and 26.7% noted that they were not helpful in explaining what supporting information was needed to justify allocation of expenses to SR&ED.
- The majority (81%) of case study respondents found their science advisor to have been helpful in explaining why a claim met or did not meet the definition of SR&ED, and what evidence is needed to demonstrate eligibility (76%).
- Over one-half (55.6%) of case study and 79.3% of Web-survey respondents indicated that the SR&ED Program has contributed to making their company more successful. More specifically, the SR&ED Program has been effective in encouraging respondents to conduct more R&D (73.1%), and in increasing company profitability (58.3%).

It is apparent from the study findings that there has been significant improvement in the SR&ED administrative process since 1999, and that the steps taken by CCRA to improve the program have been successful. While progress is evident, respondents continue to express a need for: greater clarity and simplification in CCRA forms, a more useful information guide, and better turnaround time in the processing of their claim. Continued improvement in these areas will ensure that industry will continue to view the SR&ED Program as an effective and well-administered tax incentive program.

## 2.0 Introduction

The SR&ED program is a tax incentive initiative of the federal government designed to support and foster science and technology, particularly research and development (R&D) conducted by companies in Canada.

KPMG Consulting, together with the accounting firm KPMG, was engaged by the Canada Customs Revenue Agency to develop a performance metric that would provide an annual “report card”, based on industry feedback, on the administration of the SR&ED Program. This project was to build on work conducted previously, i.e., by the CATA/KPMG pilot study published in 1999.<sup>1</sup> This study therefore has a broader scope than the original study as it focused on gathering feedback from claimants from all industry sectors rather than just the high tech sector (software and telecommunications).

The project was divided in two phases: Design and Implementation.

- *Phase 1 Design Report* provided an overview of the study methodology and included the development of a Web survey instrument and the case study interview guide. The survey/interview guide for the case study interviews was developed by our tax panel and in conjunction with SR&ED Program management.
- *Phase 2 Implementation* involved establishing the Web site and surveying a random sample of claimants, and undertaking 25-30 case study interviews.

It is the results of the Phase 2 Implementation, i.e., the findings from the Web survey and the case studies that are presented in this report.

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<sup>1</sup> *CATA Alliance and KPMG Consulting, SR&ED Program Renewal: A Metric for Tracking Progress in the Telecom and Software Sectors, July 1999.*

## 3.0 Methodology

The Survey Implementation Phase of this study was implemented between July and November 2002. Two approaches were undertaken: a Web-based survey of a representative sample of the SR&ED claimant population, and more in-depth interviews with a smaller sample.

### 3.1 Web survey

The main methodology recommended by the design phase was to conduct a Web-based survey of SR&ED claimants. In order to protect confidentiality, CCRA selected a random sample of 800 claimants from the agency's complete list of claimants. Companies that were excluded were those that: had not received a review by CCRA in the past twelve months; did not have their 1998 file closed; and, or had an appeal still in process. The sample of 800 was contacted by CCRA by telephone in order to solicit participation in the survey. As a result of wrong numbers, no answers, etc., the original sample of 800 claimants was increased by 200 names. In total, with the removal of duplicate names and wrong numbers, the final sample that was directly contacted by CCRA was 815 claimants.

Each company was asked to participate in the survey by completing a confidential questionnaire at a Web site established by KPMG Consulting. Each company was sent an e-mail message by CCRA, providing the link to the survey Web site.

Of the sample that was contacted a total of 306 companies completed the on-line survey, resulting in a 36% response rate. This is a very high response rate for this type of survey, which likely reflects the high level of interest that companies have in the SR&ED Program, coupled with the fact that each company was contacted initially by telephone.

The results of this survey are presented in Chapter 4 of this report.

At the end of the Web questionnaire, companies were invited to provide any other comments or suggestions regarding the administration of the SR&ED Program. Many companies took the opportunity to provide detailed feedback. This indicates that companies have a high level of interest in ensuring that the program remains relevant to their needs. CCRA is encouraged to review this material and consider these comments as part of their ongoing work in improving the program.

### 3.2 Case studies

The case study guide included the topics covered by the Web survey, but in more depth. The interview guide/survey that was used for the case study interviews was presented along with frequencies. CCRA provided a breakdown of claimants by industry sector, which served as a guide to determining the number of case study companies by sector. In order to generate a list of potential companies for the case studies, KPMG Consulting contacted various industry associations and asked them to supply names of companies that are familiar with the SR&ED Program and would be willing to participate in this study. Likewise, KPMG tax specialists supplied names of companies currently participating in the SR&ED Program. A master list, supplemented with names of the largest R&D producing Canadian companies was produced. KPMG Consulting contacted all the companies on this list, and a total of 27 Canadian companies agreed to participate in an interview and to complete a survey questionnaire.

The findings from the case study interviews are presented in Chapter 5 of this report.



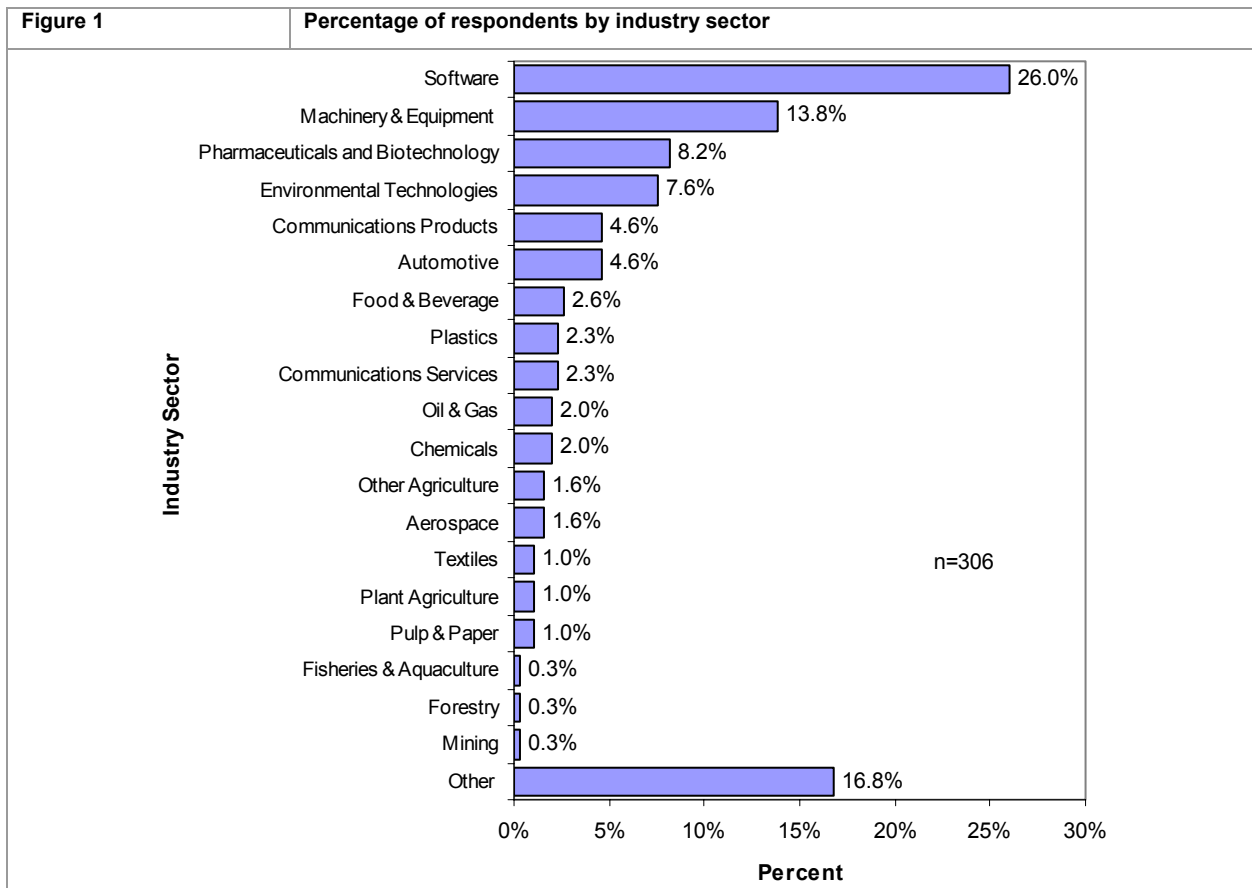
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## 4.0 Web Survey Findings

This chapter presents the overall Web survey findings. A total of 306 companies participated in this survey.

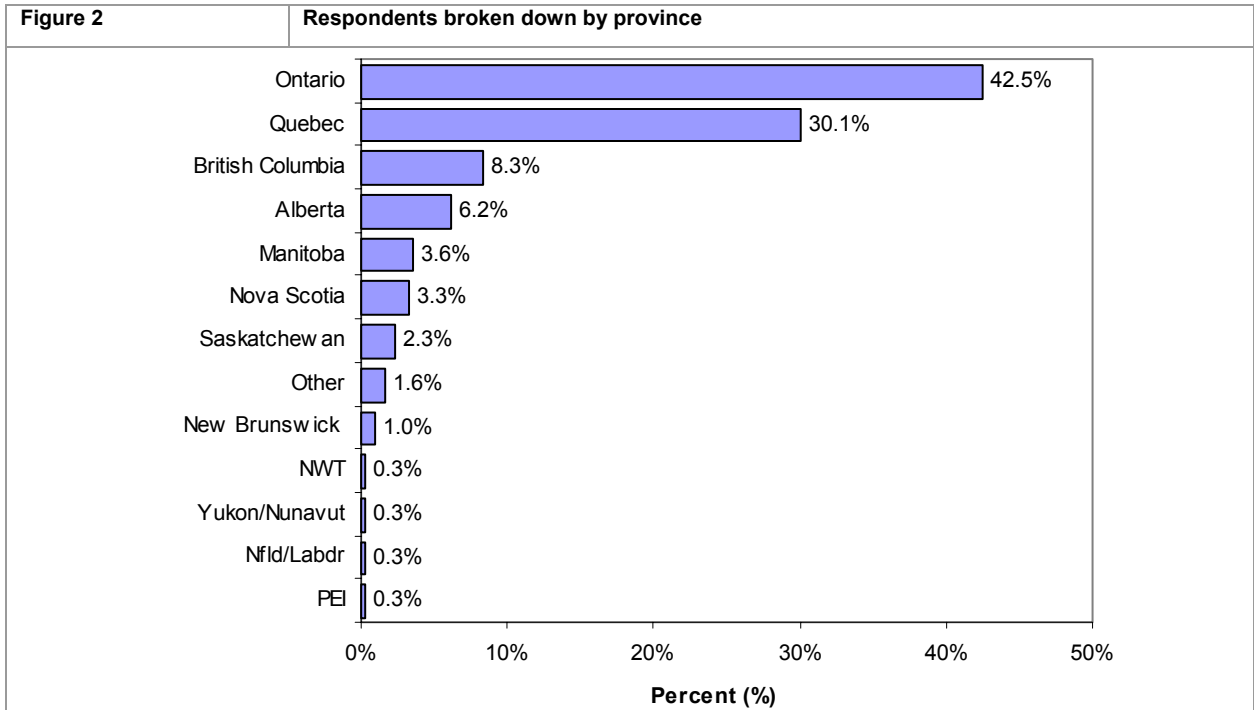
### 4.1 Demographics on respondents

Figure 1 provides a breakdown of the industry sectors that respondents most closely identified with. CCRA provided KPMG Consulting with a list of current industry sectors that participate in the SR&ED Program. Approximately one-quarter (26%) of the respondents classified themselves as belonging to the 'software' sector, followed by 'machinery and equipment' sector (13.8%). A significant number of respondents (16.8%) also classified themselves under the category of 'other'. A review of these responses indicates sectors such as geomatics, transportation, etc. Given that a relatively large percent of respondents classified themselves as 'other', CCRA should consider whether its current industry sector breakdown truly reflects the various industries that participate.

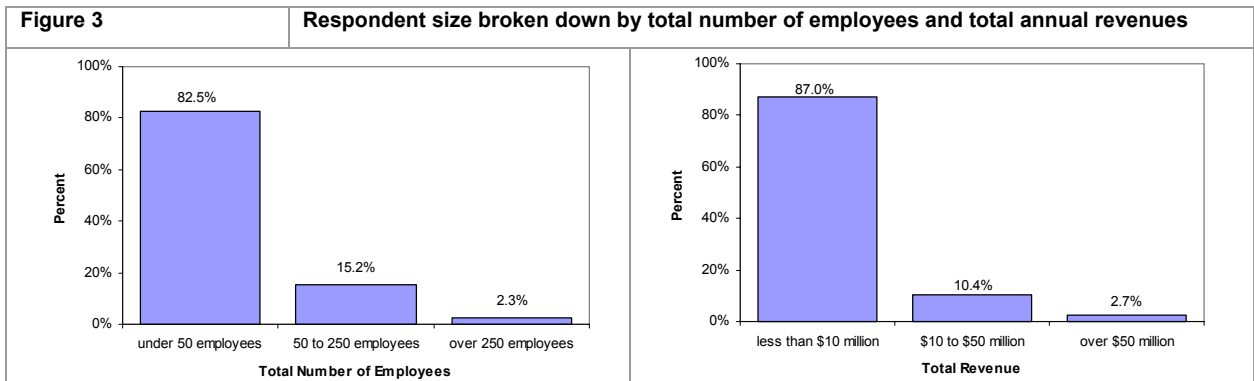


As noted earlier, a random sample of SR&ED claimants was contacted. The figure below provides a breakdown by province of respondents that participated, with Ontario (42.5%) and Quebec (30.1%) the provinces most represented.



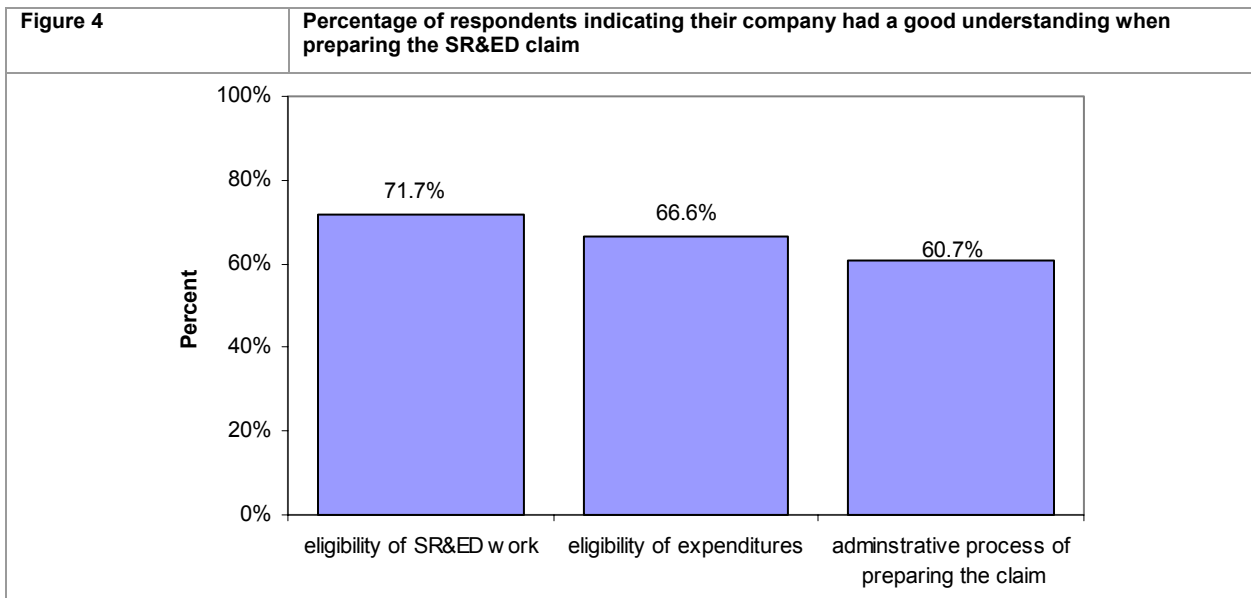


The majority of the respondents to this Web-based survey were SMEs. Figure 3 reveals that 82.5% of respondents had fewer than 50 employees, and reveals that 87% of companies had less than \$10 million in total annual revenues.

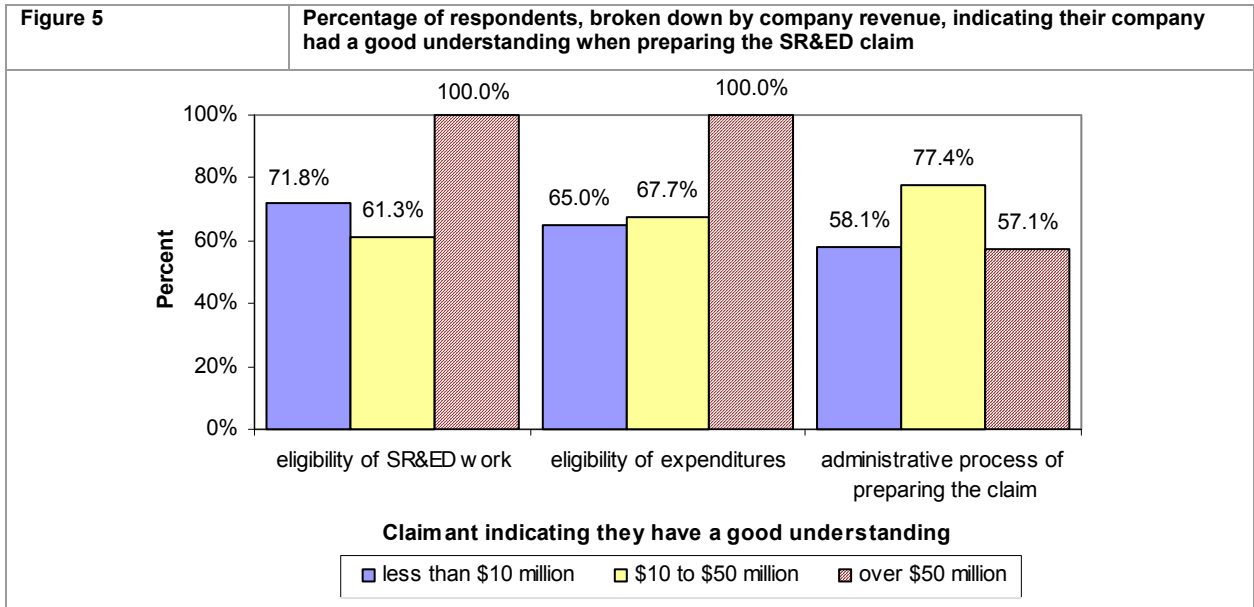


## 4.2 Respondents view on CCRA's on-site review of their company's claim

Figure 4 indicates how well companies understand the SR&ED Program. Approximately 72% of respondents indicated that their company had a 'good understanding' of the eligibility of SR&ED work, followed by about 67% who revealed they had a good understanding of eligibility of expenditures, and 61% who felt they had a good understanding of the administrative process of preparing the claim.

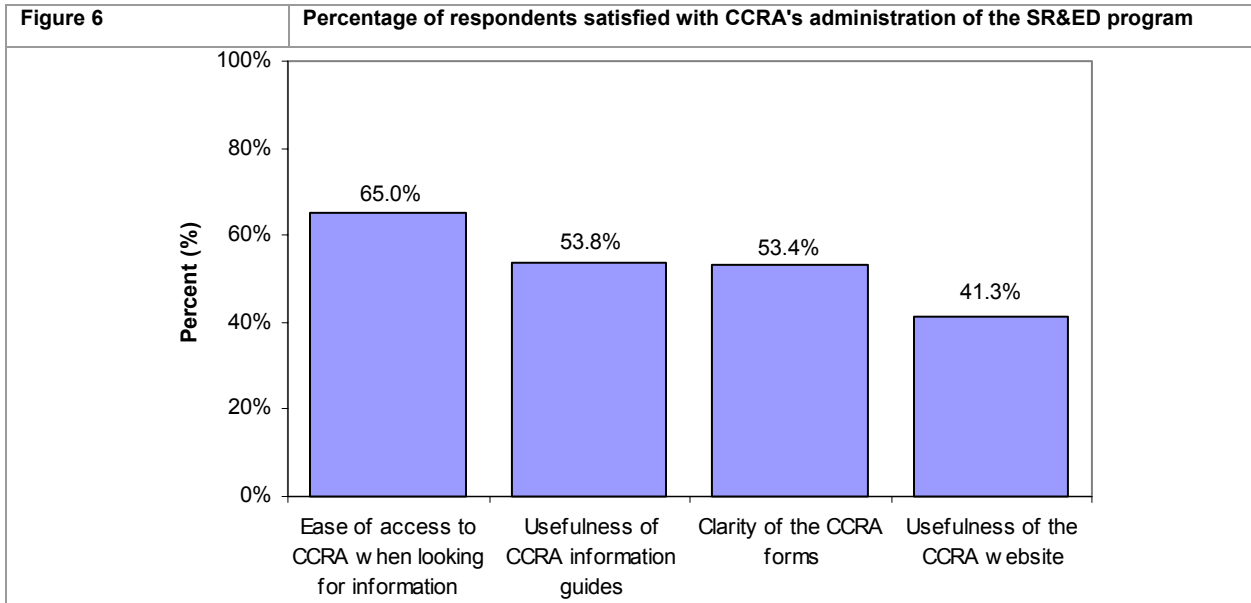


Further analysis by company revenue reveals that all of the companies with revenues exceeding \$50 million indicated that they had a good understanding of the eligibility of SR&ED work and expenditures. However, only one-half (57.1%) of these same respondents stated they had a good understanding of the administrative process when preparing the claim. Figure 5 also reveals that 58.1% of smaller-sized companies (revenues less than \$10 million) indicated having a good understanding of the administrative process of preparing a claim; medium-sized companies appeared to have the greatest understanding (77.4%) of the administrative process.

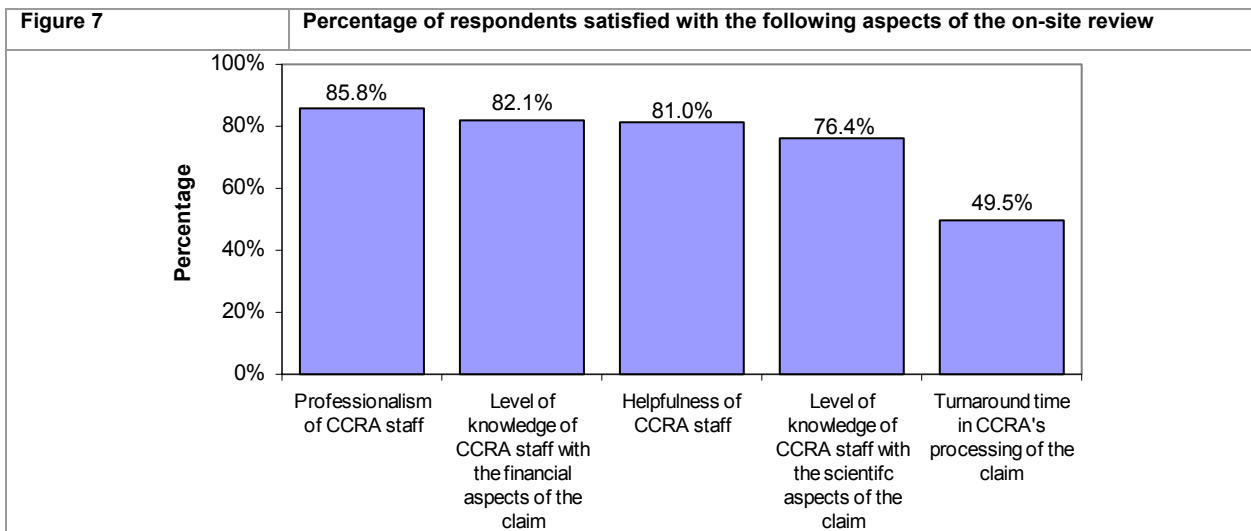


Respondents were asked to indicate their level of satisfaction with various aspects of CCRA's administration of the SR&ED Program. Figure 6 indicates that respondents were most satisfied (65.0%) with the ease of access to CCRA when a company had questions or were looking for information. However, less than one-half (41.3%) of respondents were satisfied with the usefulness of the CCRA Website. In fact, in reviewing the frequencies, it becomes apparent that close to one-half of respondents (47.4%) could not assess the usefulness of the CCRA website.

Clarity of forms and usefulness of CCRA information guides are especially important to first-time claimants. Comments from some respondents indicate that forms can be intimidating and written in legalese, which causes many to hire professional accountants.

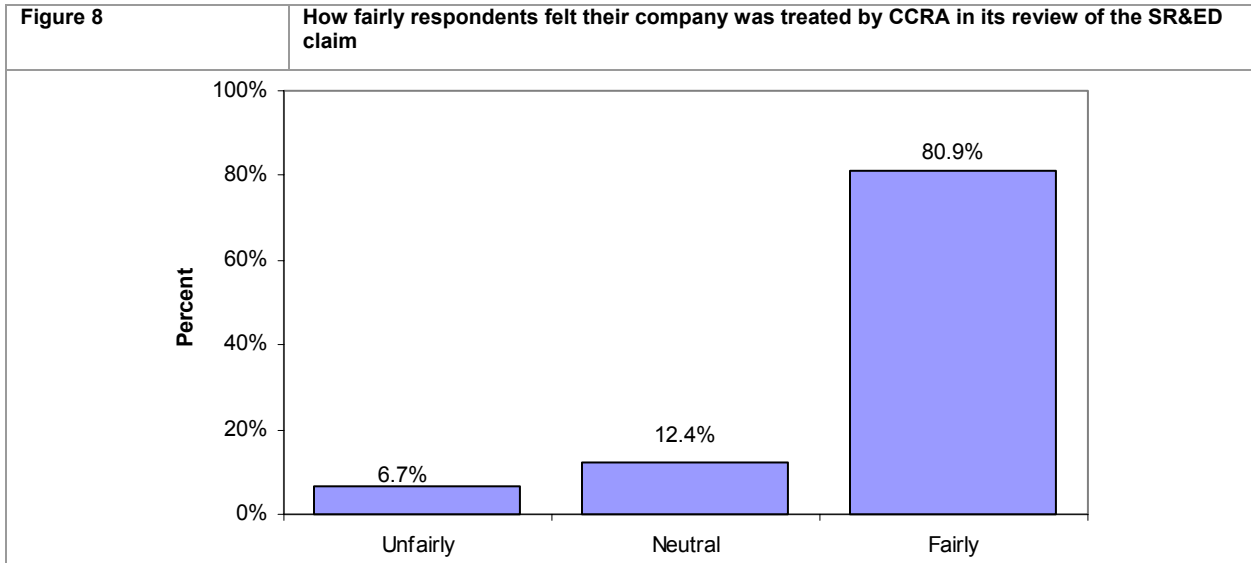


During an on-site review, a claim is reviewed by CCRA technical reviewers (science advisors) and financial reviewers (auditors). Respondents were asked to indicate their satisfaction with various aspects of their last on-site review. The figure below reveals that the majority of respondents were satisfied with: the professionalism of CCRA staff (85.8%), level of knowledge of CCRA staff with the financial aspects of the claim (82.1%), and the helpfulness of CCRA staff (81.0%). However, only one-half (49.5%) were satisfied with the turnaround time in CCRA's processing of the claim. In fact, of those that were dissatisfied, 86.1% were companies with fewer than 50 employees. Comments from respondents reveal that the program is vital for companies as it enables them to improve and innovate, however, time delays in receiving a claim can be detrimental, especially to small companies as the delay will put a financial strain on companies and may in fact delay scientific research.

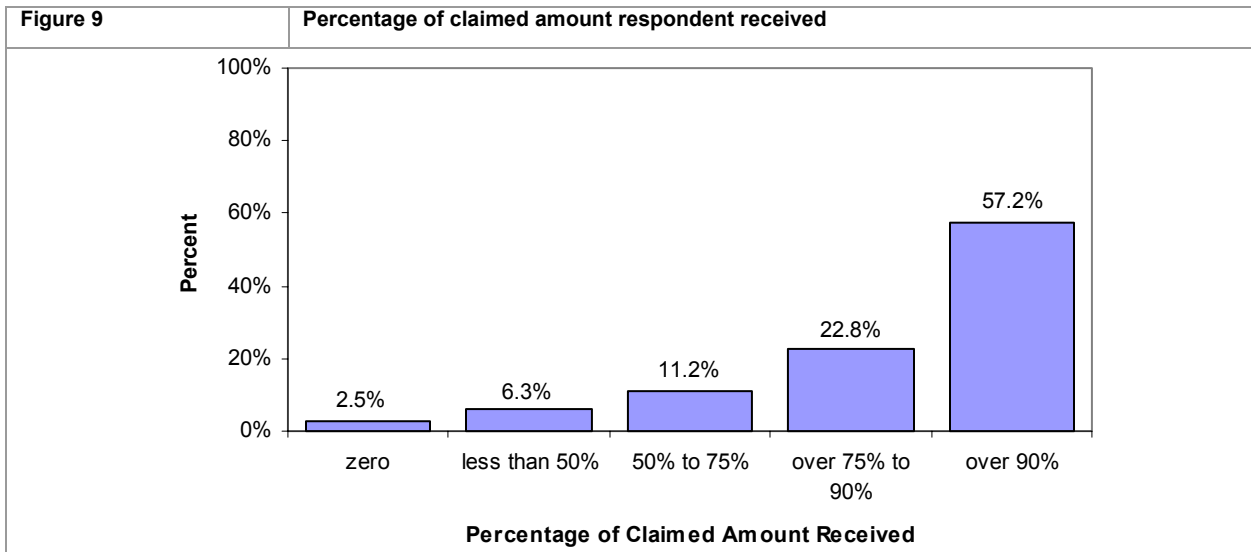


Further indication of how satisfied respondents are with the program can be revealed by how fairly they felt their company was treated by CCRA in its review of their SR&ED claim. The figure below reveals

that 80.9% of respondents believe that they were treated fairly, while only 6.7% indicated that they were treated unfairly.

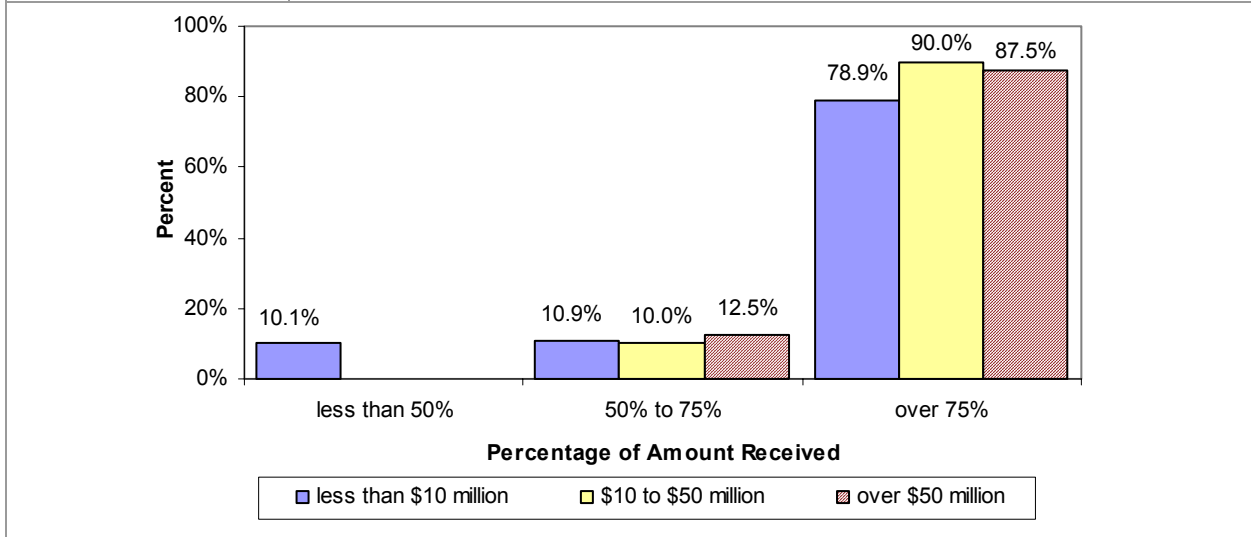


On their last claim, approximately 80.0% of respondents indicated that they received over 75% of the claimed amount. The figure below also reveals that only 2.5% received none of the amount claimed.



Further analysis reveals that respondents with less than \$10 million in revenues were more likely (10.1%) to receive less than 50% of their claimed amount. All medium sized (\$10 to \$50 million in revenues) and large sized (over \$50 million in revenues) respondents indicated that they had at least received over 50% of their claim amount.

**Figure 10** Percentage of Claimed Amount Received by Respondents Broken Down by Company Revenue

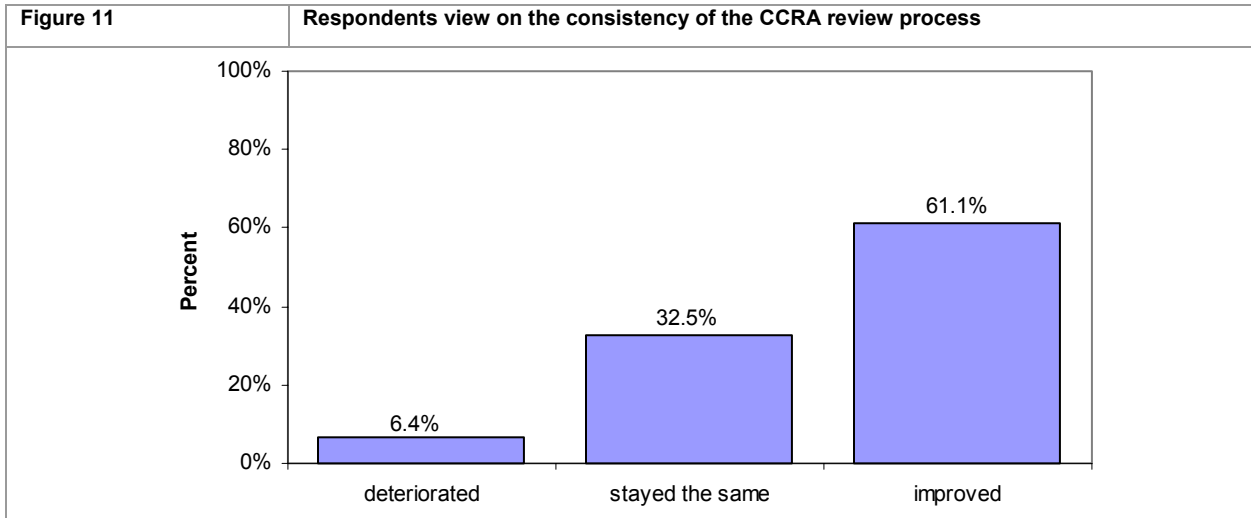


Respondents were also asked if they felt that there were significant problems during their last on-site review. The majority (87.7%) indicated that there were no significant problems. Of those that did experience problems, a small percentage indicated that they attempted to resolve these problems with the science advisor/financial reviewer/first line manager (10.5%).

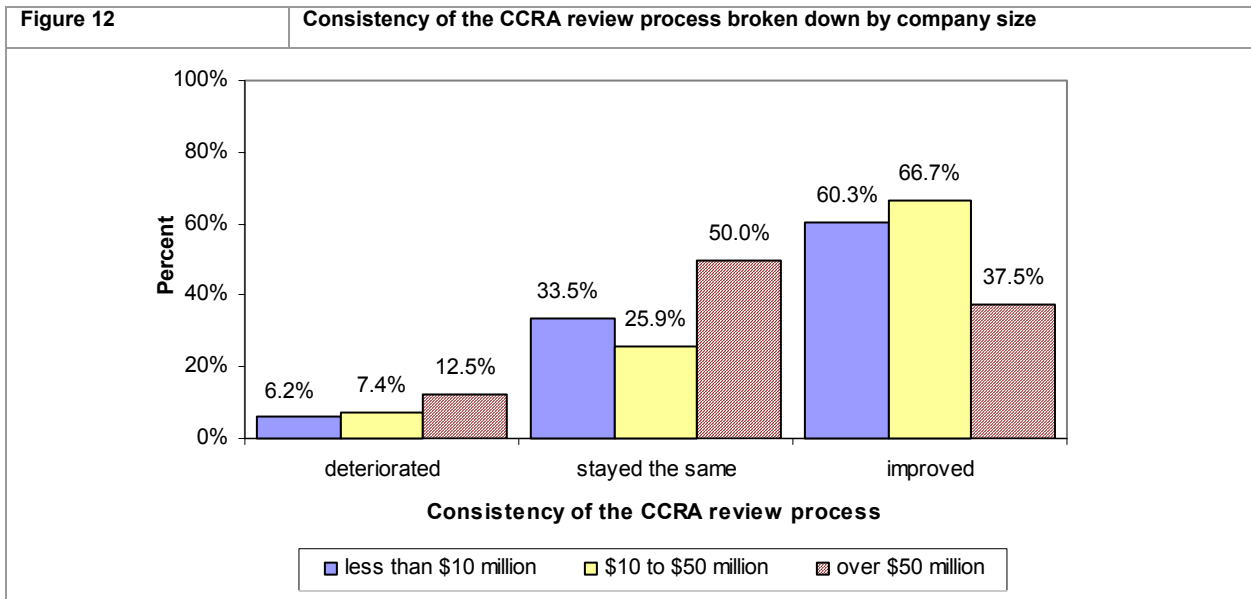
Respondents were also asked if they were aware of the CCRA document ‘Guidelines for Resolving Claimants’ SR&ED Concerns’. Less than one-quarter (22.5%) indicated that they were aware of these guidelines.

### 4.3 Views today of the SR&ED Program

The majority (82.9%) of respondents had submitted more than one SR&ED claim in the past. Consequently they were able to rate the consistency of the CCRA review process. Figure 11 indicates that close to two-thirds (61.1%) of respondents believe that the consistency of the CCRA review process has improved, while 6.4% believe it has deteriorated.

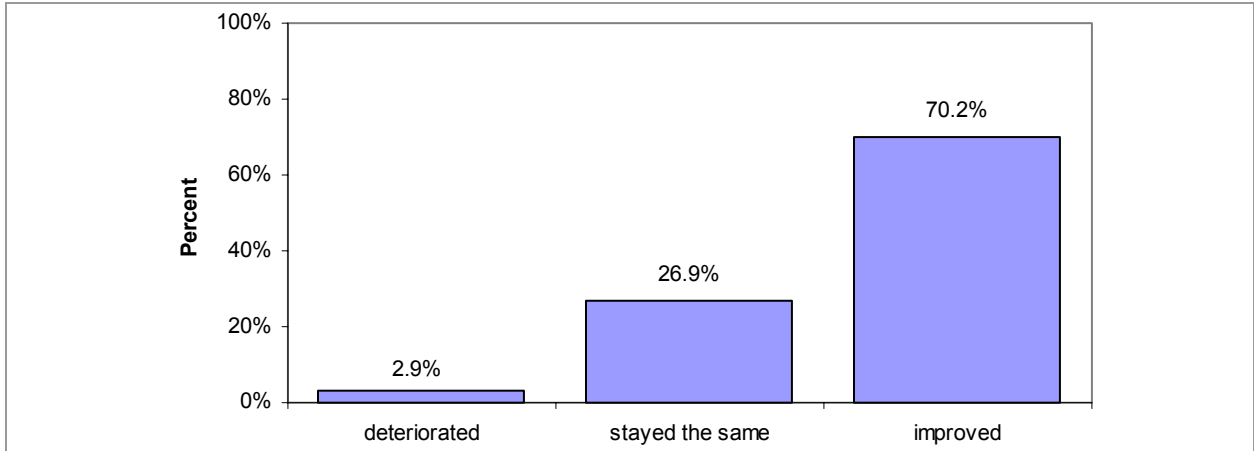


Further analysis reveals that it is small and medium-sized respondents (revenue less than \$50 million) who were more likely to note an improvement in the consistency of the SR&ED review process. Figure 12 reveals that one-half (50%) of large-sized companies noted that the consistency had remained the same, while a small percentage (12.5%) noted a deterioration.

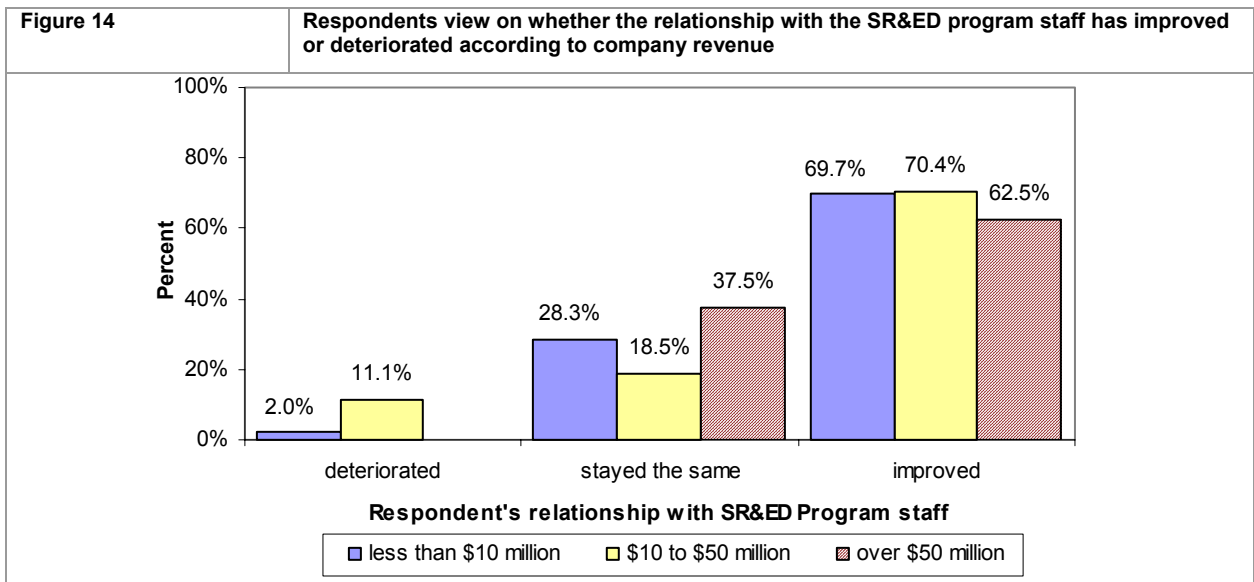


Respondents were also asked to indicate whether their company's relationship with the SR&ED Program staff has improved or deteriorated. The figure below reveals that 70.2% of respondents believe that their relationship with SR&ED Program staff had, in fact, improved, with only 2.9% indicating that it had deteriorated.

|                  |   |
|------------------|---|
| <b>Figure 13</b> | <b>Respondents view on whether the relationship with the SR&amp;ED program staff has improved or deteriorated</b> |
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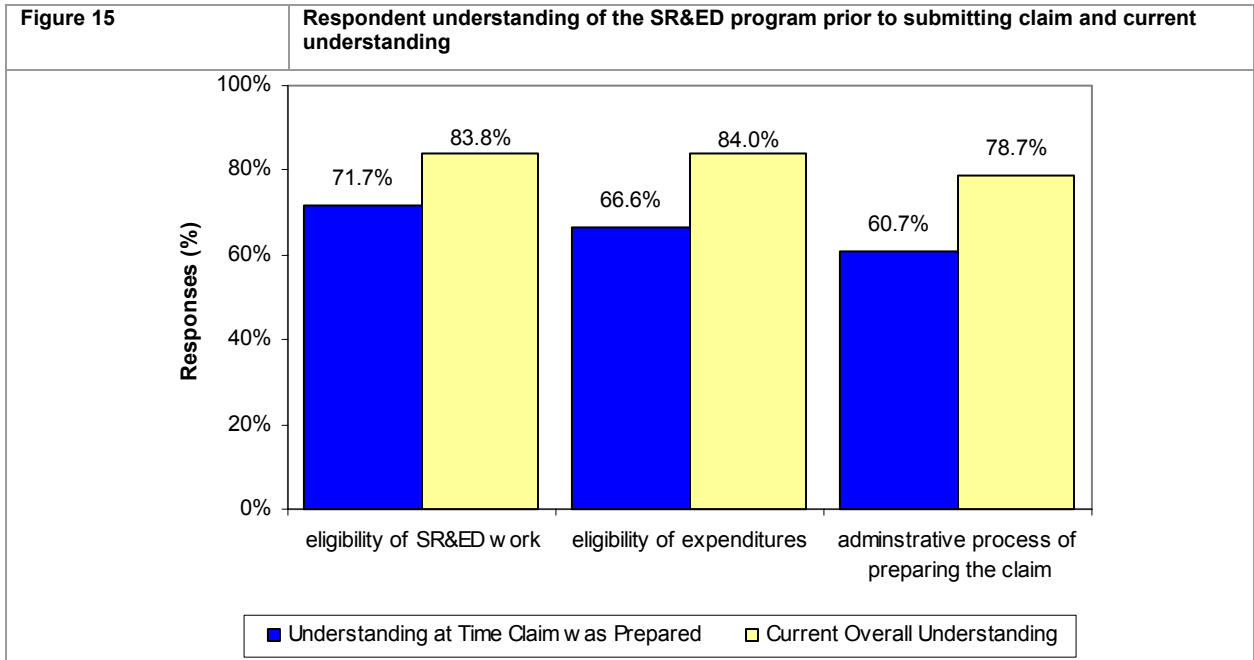


Further analysis by the size of responding companies reveals that all large-sized companies indicated that their relationship with SR&ED Program staff has stayed the same or has in fact improved. Likewise, the majority of small-sized respondents (companies reporting revenue of less than \$10 million) reported their relationship as having improved (69.7%) or having stayed the same (28.3%). Only a small percentage (11.1%) of medium-sized respondents indicated their relationship as having deteriorated.

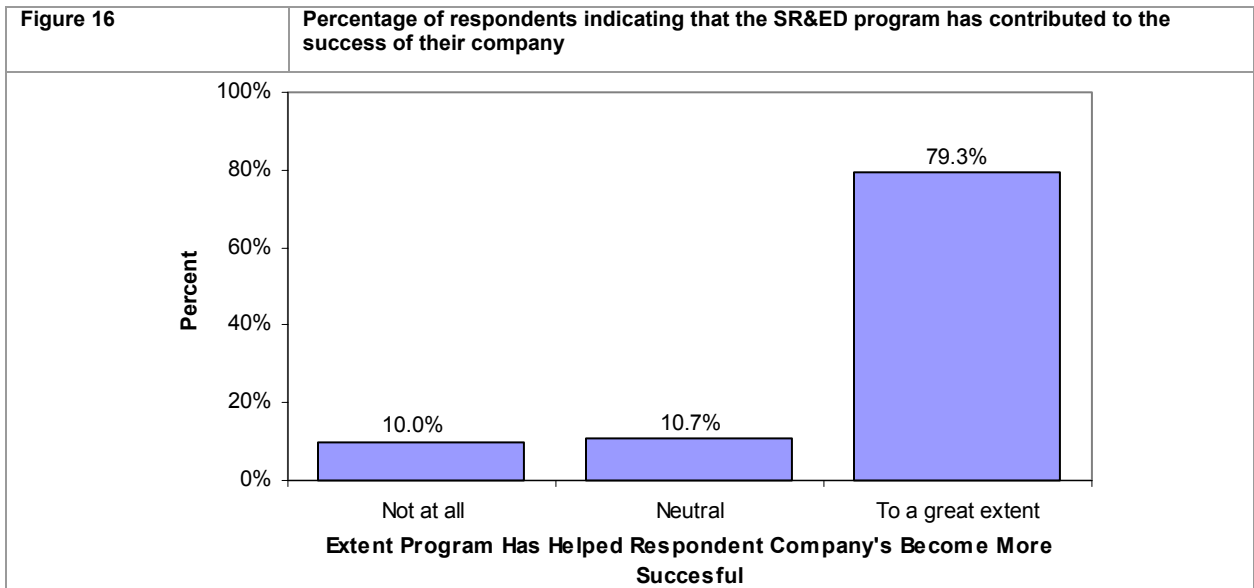


Earlier in the report, we presented the findings from respondents understanding of the SR&ED Program at the time the claim was being prepared (Figure 4). Below we present respondents' current understanding of the SR&ED Program. The figure indicates that most respondents have a better understanding today of various aspects of the SR&ED Program than they did at the time they were preparing their claim. For instance, while only 66.6% of respondents indicated a good understanding at the time they were preparing their claim regarding the eligibility of expenditures; today, over three-quarters (78.7%) indicated that their company had a good understanding of the eligibility of expenditures.

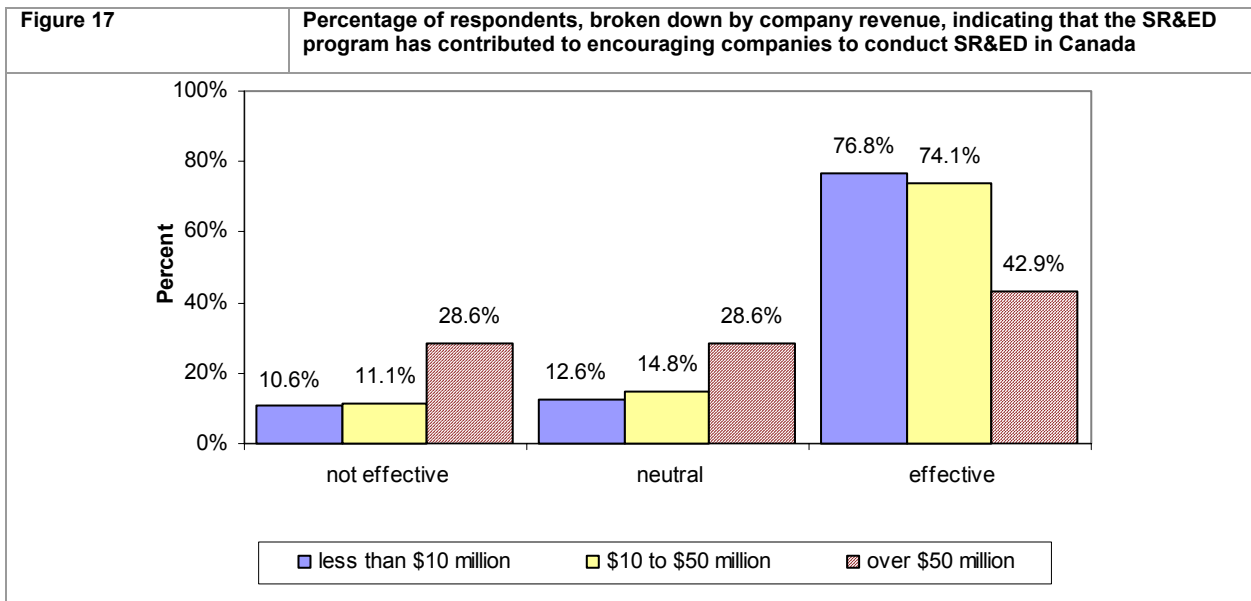




Overall, the vast majority of respondents appear to be satisfied (80.9%) with CCRA's administration of the SR&ED Program. In fact, Figure 16 reveals that approximately 79.3% of respondents believe that the SR&ED Program has helped their company become more successful; only a small percentage (10%) indicated that the Program has not helped them to become more successful.



Three-quarters (75.8%) of respondent believe the SR&ED Program is effective in encouraging companies to conduct SR&ED in Canada. Figure 17 shows that it is in fact the small and medium-sized respondents (company revenues less than \$50 million) who most strongly believe that the SR&ED Program is effective in encouraging companies to conduct SR&ED in Canada. One quarter (28.6%) of large-sized respondents, revenues exceeding \$50 million, noted that the Program is not effective at encouraging SR&ED. One explanation is that given the current climate, many companies are not making a profit and will thus not see the immediate benefits of a tax credit. Consequently, in the short term, respondents may not view the program as encouraging their company to engage in SR&ED.



When asked if company SR&ED expenditures have increased this year in comparison to last year, only one-half (46.2%) of respondents indicated that they had. Approximately 40.2% of respondents indicated that the percentage increase was over 30% from that of the previous year.

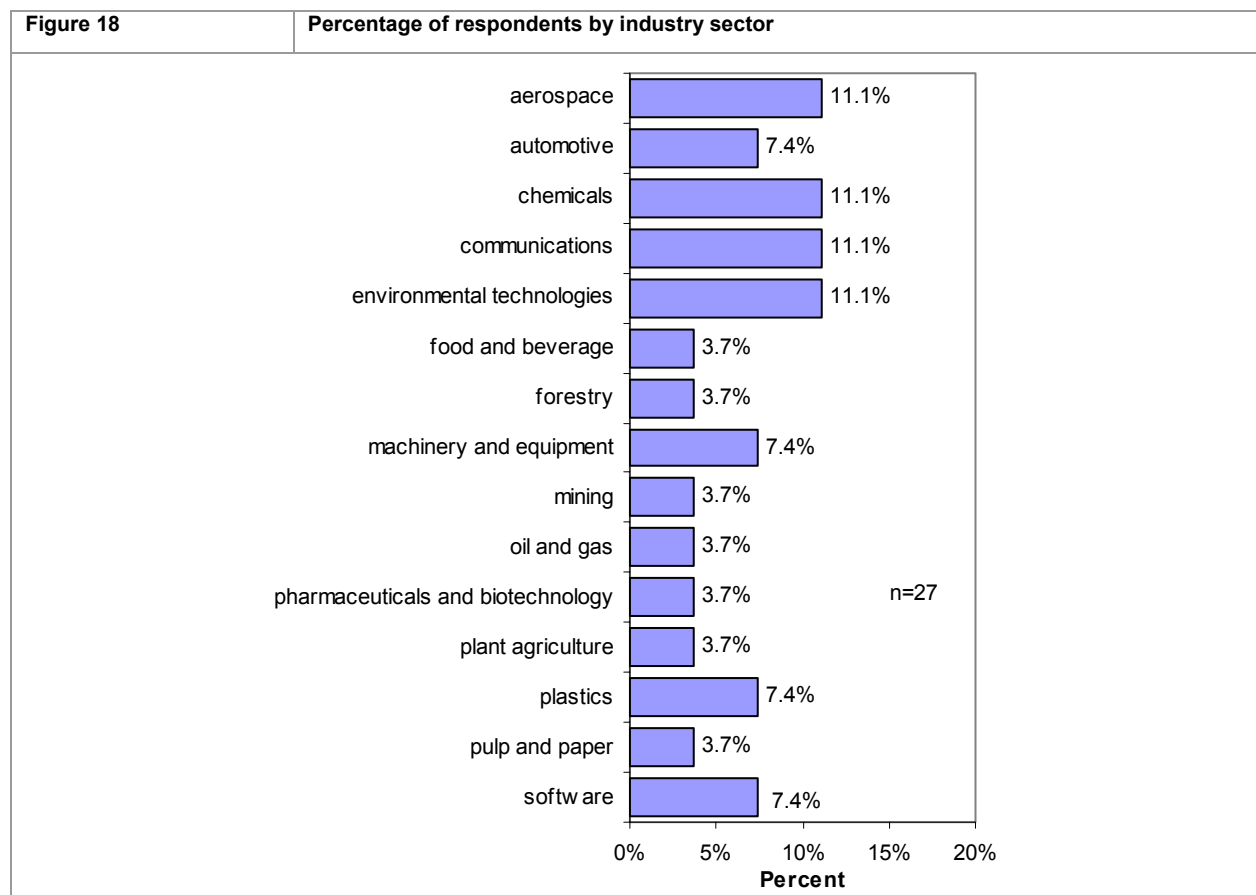


## 5.0 Case Study Findings

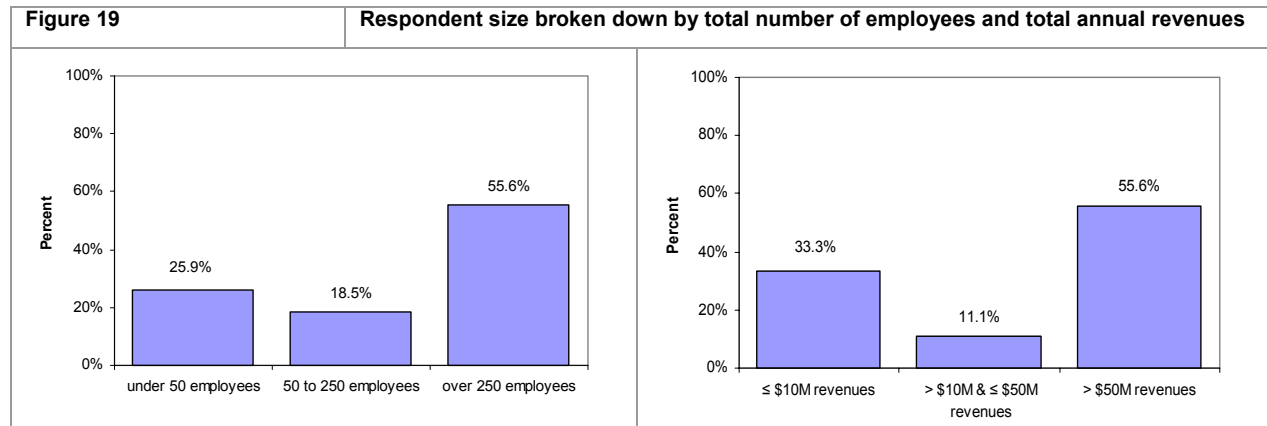
This chapter presents the overall case study findings. A total of 27 companies agreed to participate in these in-depth interviews.

### 5.1 Demographics on respondents

Figure 18 provides a breakdown of the industry sectors that respondents most closely identified with, which indicates, overall, that the case studies provided good coverage of a range of industry sectors.



The SR&ED Program is intended to encourage businesses -- particularly small and start-up firms -- to conduct SR&ED that will lead to new, improved, or technologically advanced products or processes. Figure 19 reveals that close to one-half (44.4%) of respondents noted that their company had fewer than 250 employees, and one-third indicated total company revenues of equal to or less than \$10 million.



Two-thirds (65.4%) of the companies that participated in this study claimed the 20% tax credit, while 19.2% claimed the 35% tax credit associated with the refundable program, and 15.4% claimed using both tax credit rates.

## 5.2 CCRA SR&ED services

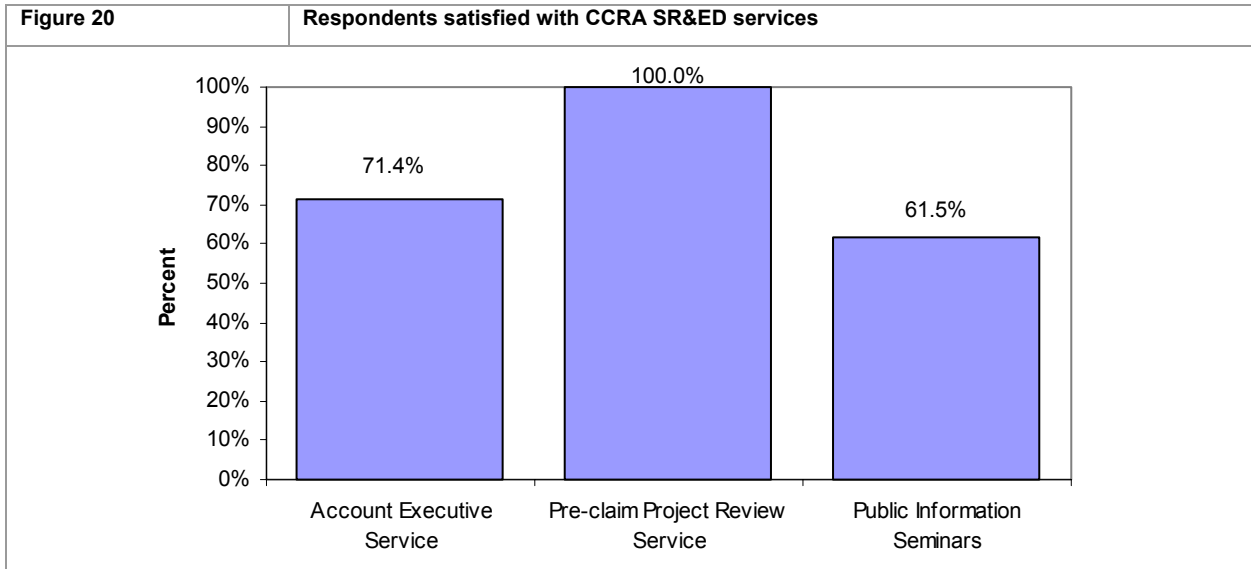
There are various services provided by CCRA under the SR&ED Program to assist companies claiming SR&ED tax credits. Three key services provided by CCRA include:

- *Public Information Seminars*: provide a general overview of the program, explaining the program's eligibility criteria, what expenditures are eligible, and how to file an investment tax credit claim.
- *The Account Executive Service*: provides companies with a designated contact person, an account executive who provides one-stop access to information, and helps make sure companies get maximum benefits from the tax incentives available.
- *The Pre-claim Project Review Service (PCPR)*: provides an up-front review and a preliminary opinion on the eligibility of projects for SR&ED tax incentives.

Respondents were asked to indicate their satisfaction with these CCRA services provided under the SR&ED Program. In reviewing the frequencies it becomes apparent that a large percentage of respondents were unaware/not using the various services, with 46.2% indicating they were unaware/don't know of the Account Executive Service, 65.4% unaware of the PCPR Service, and 51.9% unaware of Public Information Seminars. The lack of awareness/or use is likely the result of long-time claimants purposely not pursuing or informing themselves of these services, as they are already familiar with the SR&ED process. Although, one respondent did mention that CCRA had been informing them in the past of upcoming seminars, however, they were no longer doing so.

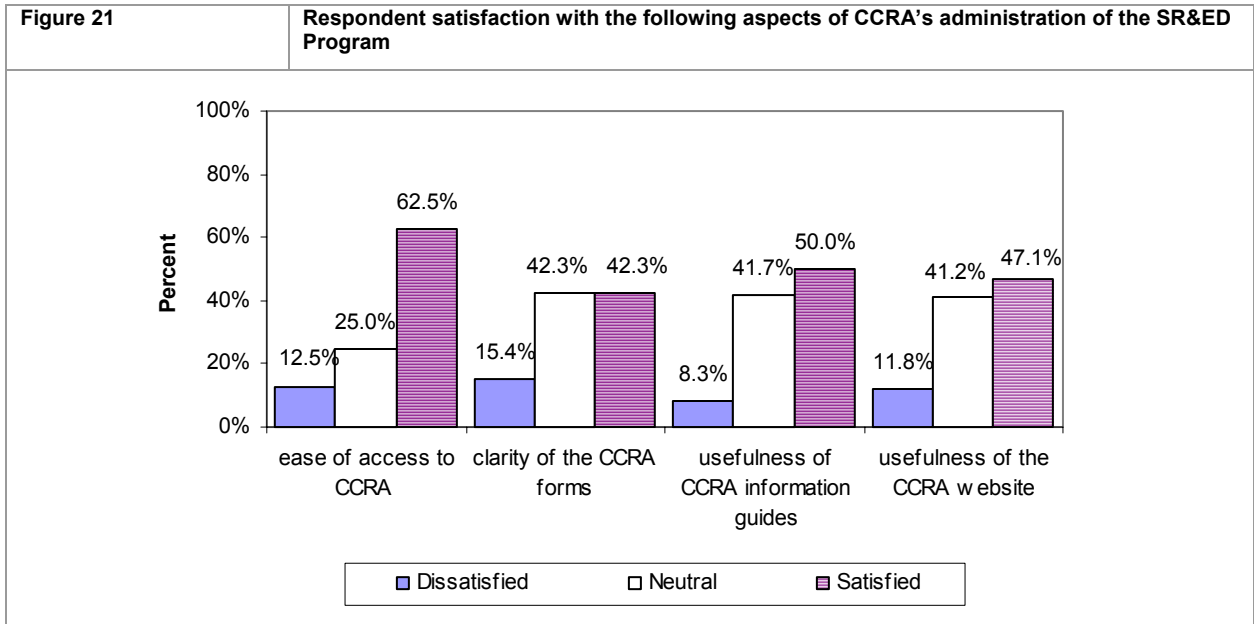
While a large percent of respondents were unaware of these services, those that were aware appear to be satisfied. Figure 20 reveals that all respondents aware of the Pre-claim Project Review Service (PCPR)

were satisfied with this service. Likewise, close to three-quarters (71.4%) of respondents were satisfied with the Account Executive Service, and 61.5% noted their satisfaction with the Public Information Seminars.



CCRA has also made available a *Guide to Conducting a SR&ED Review*. The guide outlines the objectives, the process, and the reporting requirements of an evaluation of eligibility. In addition, this document describes the roles of the CCRA's SR&ED staff and consultants involved during the review process. When asked if they were aware of this guide, over one-half (59.3%) of respondents indicated that they were.

Respondents were also asked to rate their satisfaction with the various aspects of CCRA's administration of the SR&ED Program. Figure 21 reveals that respondents were most satisfied with the ease of access they had to CCRA when looking for information or when they had questions (62.5%), followed by usefulness of CCRA information guides (50%), usefulness of Web site (47.1%), and clarity of the CCRA forms (42.3%).



Overall, claimants that were new to the process and who were not engaging external assistance to complete the forms were more likely to express a need for simplified forms. Over one-third (34.6%) of the companies interviewed mentioned that they required external assistance (e.g., external consultant, tax practitioner) when preparing their claim.

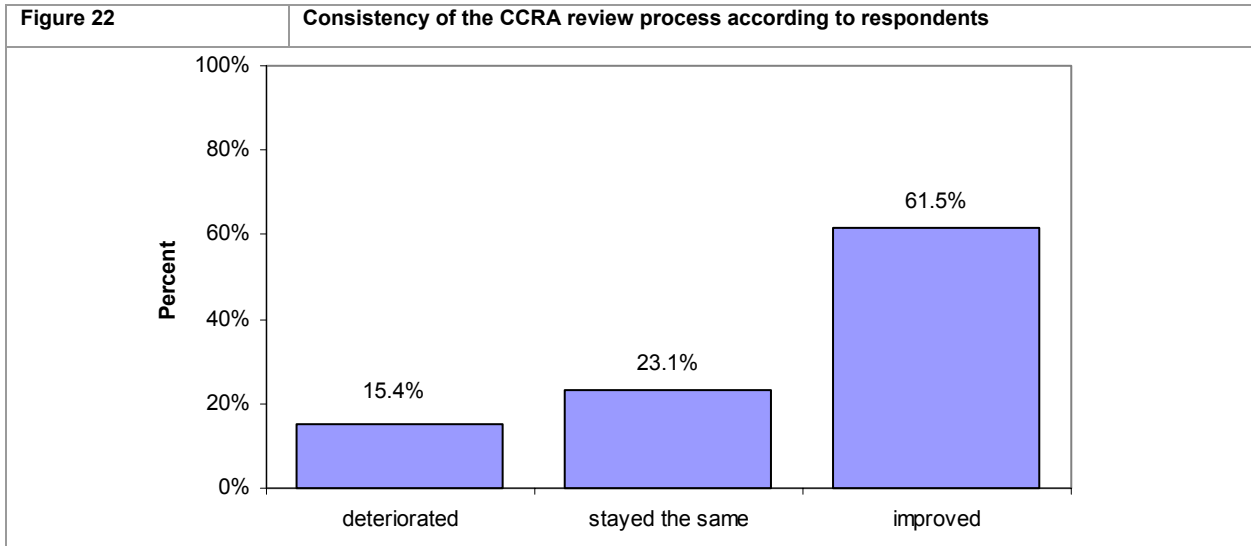
### 5.3 On-site review

The review of a SR&ED claim takes place along two tracks:

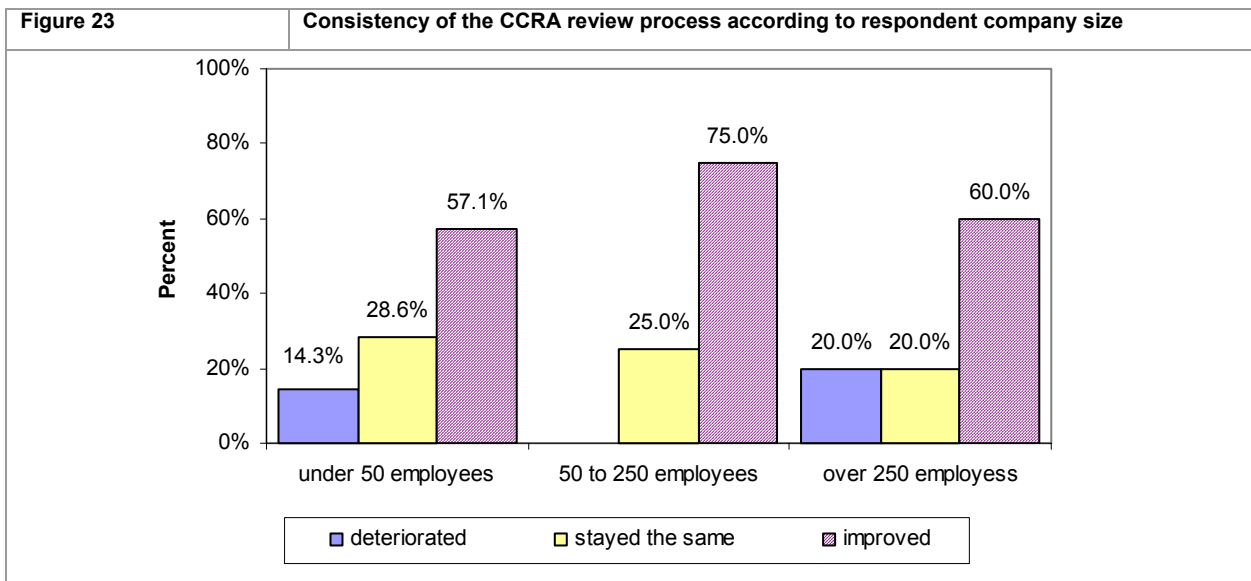
1. The work is evaluated to determine if it meets the criteria to be eligible as scientific research and experimental development.
2. The costs associated with the projects are reviewed to ensure they are eligible as SR&ED expenditures.

#### 5.3.1 Consistency

When asked to rate the consistency of the CCRA review process over the past years, close to two-thirds (61.5%) of respondents indicated that the process has improved. Figure 22 shows that only 15.4% of case study respondents indicated that the consistency of the review process over the years has deteriorated.



Further analysis by company size (total employees is used as the indicator of size) reveals that 20% of respondents with over 250 employees and 14.3% of respondents with fewer than 50 employees noted a deterioration in the consistency of the review process over time. Medium-sized respondents, with 50 to 250 employees, were most likely to note an improvement in the consistency of the review process.



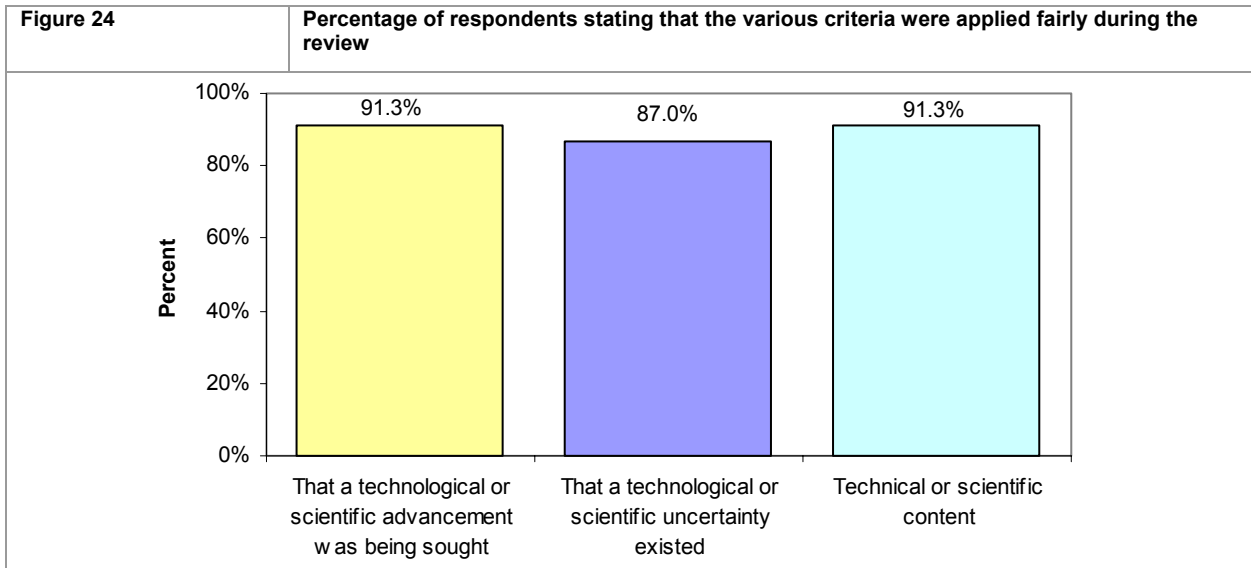
### 5.3.2 Fairness

Respondents were asked to assess whether the following criteria were applied fairly during their last on-site review:

- That a technological/scientific advancement was being sought,

- That a technological/scientific uncertainty existed, and
- Technical or scientific content was applied fairly during their last on-site review.

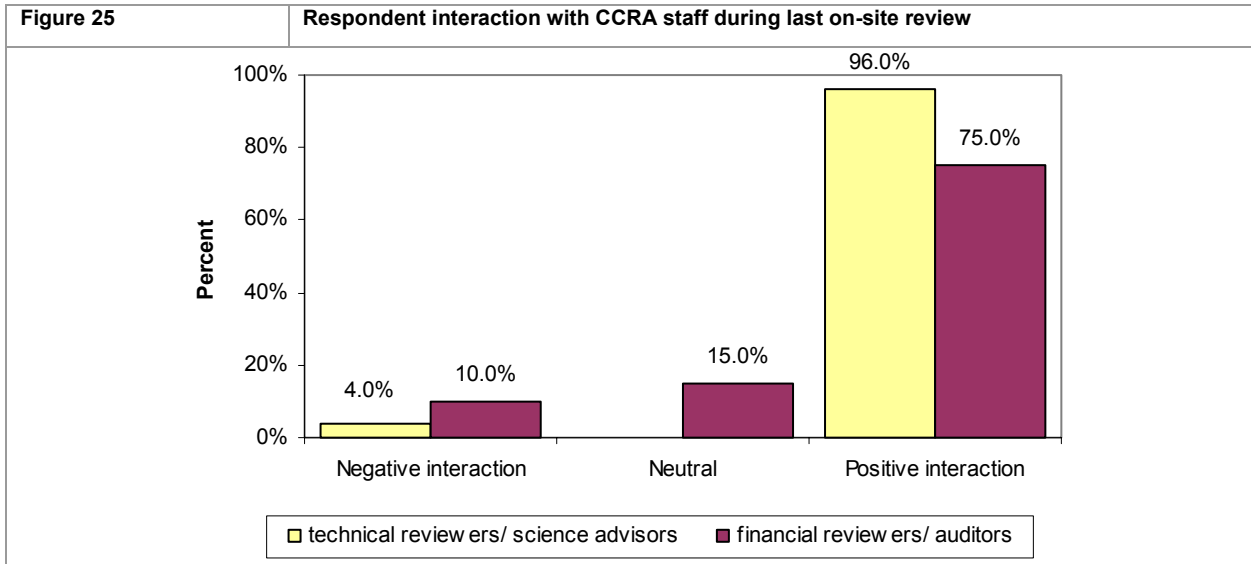
Overwhelming, the majority of respondents, as revealed in the figure below, stated that the criteria were applied fairly during their on-site review.



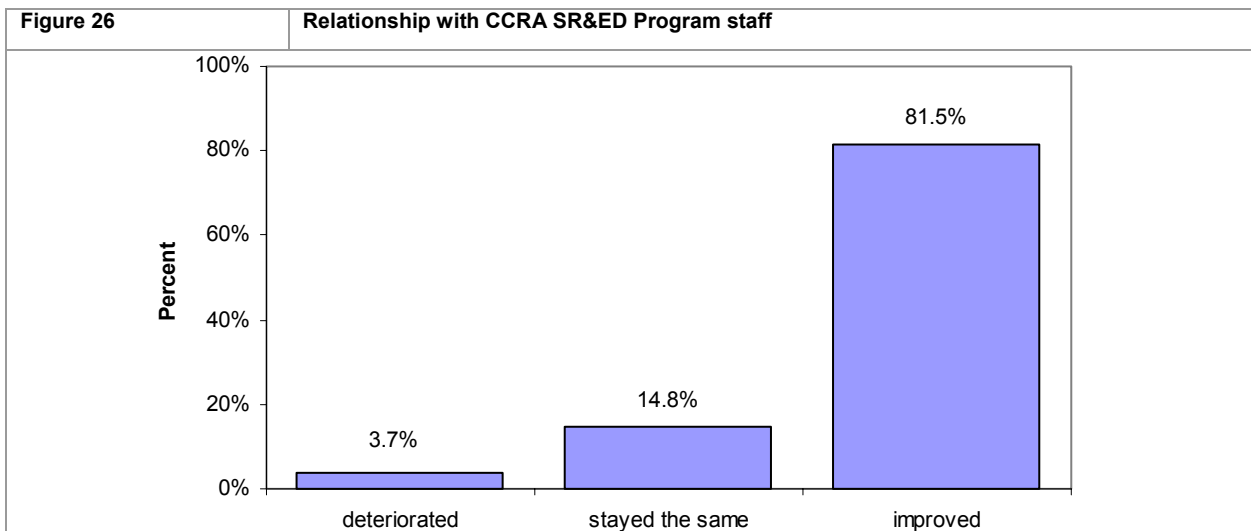
### 5.3.3 Interaction between respondents and CCRA staff

In the 1999 CATA/KPMG benchmarking study respondents viewed their interaction with CCRA financial reviewers/auditors more positively than their interaction with science advisors/consultants. Although the sample of respondents differs for the case studies, as more industry sectors are represented, it is apparent that overall the interaction between respondents and technical reviewers/science advisors has improved over time. Figure 25 shows that 96% of respondents currently rated their interaction with technical reviewers/science advisors positively. The interaction between respondents and financial reviewers/auditors has also improved, with 75% of respondents rating it positively



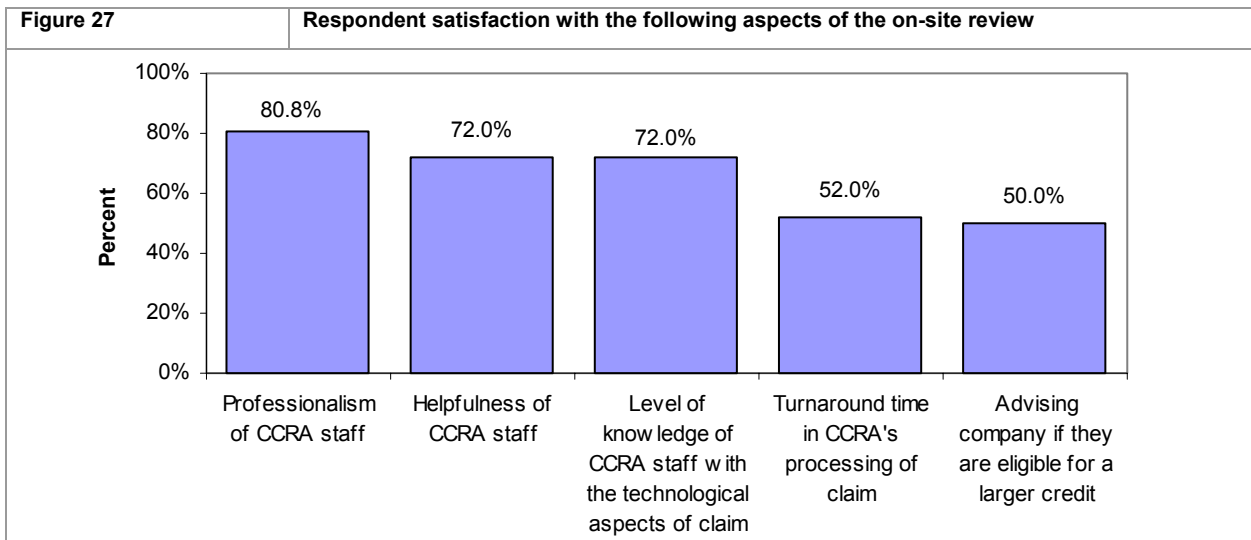


CCRA has implemented various administrative practices in order to improve the services provided to SR&ED claimants. A key indicator of the success of these changes is whether participating companies consider their relationship with CCRA as having improved, stayed the same or deteriorated. In the 1999 benchmarking study one-quarter (27%) of respondents indicated that their relationship with SR&ED Program staff had deteriorated, and only 20% indicated their relationship had improved. In the current study, few respondents (3.7%) indicated that the relationship between their company and CCRA staff deteriorated. In fact, figure 26 reveals that 81.5% of respondents view their relationship with SR&ED staff as having improved; a strong indicator that many of the practices implemented by CCRA have been effective.



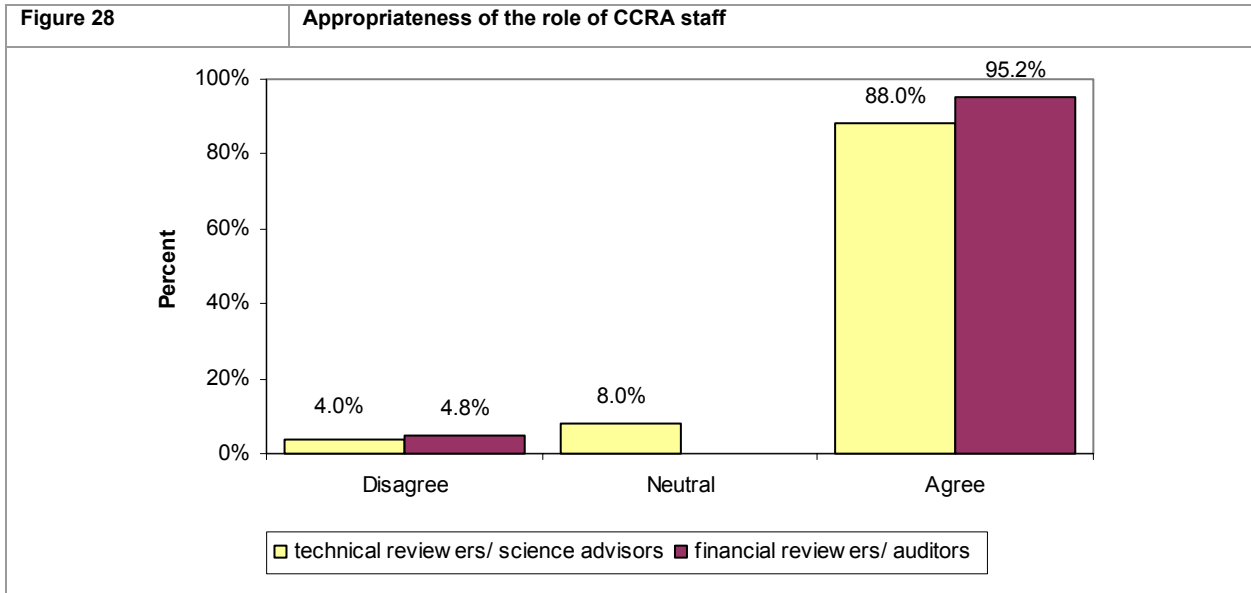
The results of the case studies are consistent with the findings from the Web survey, which revealed that only 2.9% of respondents indicated that their relationship with SR&ED program staff deteriorated.

During an on-site review, a claim is reviewed by CCRA staff. Respondents were asked to indicate their satisfaction with various aspects of their last on-site review. Figure 27 below shows that the majority of respondents were satisfied with the professionalism of CCRA staff (80.8%), helpfulness of CCRA staff (72%), and the level of knowledge of CCRA staff with the technological aspects of the claim (72%). Aspects that received somewhat lower ratings of satisfaction were: turnaround time of CCRA's processing of their claim (52%) and advising companies if there are eligible for a larger credit (50%). One respondent mentioned that their relationship had improved considerably over the past few years; in fact, on their last claim they were advised of other areas where they qualified.



### 5.3.4 Appropriateness of the Role of Science Advisors and Financial Auditors

In this current study, the majority of respondents indicated that in fact the CCRA staff did limit their role to their area of expertise. Figure 28 reveals that 88% of respondents agreed that their science advisor limited their role, while 95.2% indicated that their financial auditor limited their role to their area of expertise during the last on-site review. This differs from the 1999 CATA/KPMG study where the financial auditors and science advisors/consultants were viewed as not always appropriately limiting their role to their area of responsibility and expertise. Science advisors were considered to be the most likely to have overstepped their role when compared with the financial audit staff.

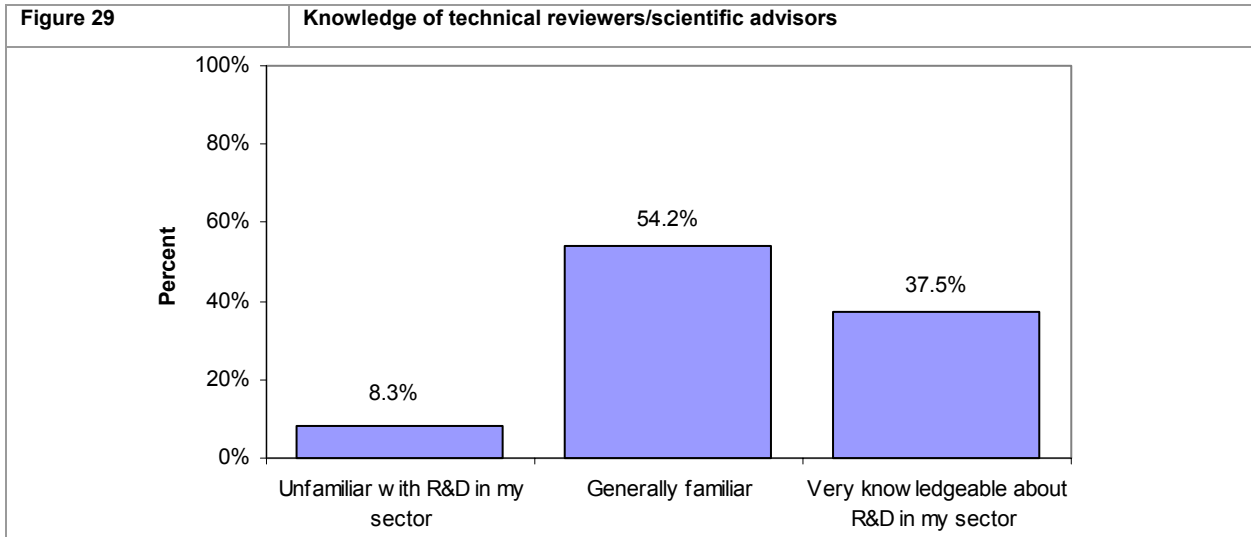


### 5.3.5 Resolution of problem(s) during last on-site review

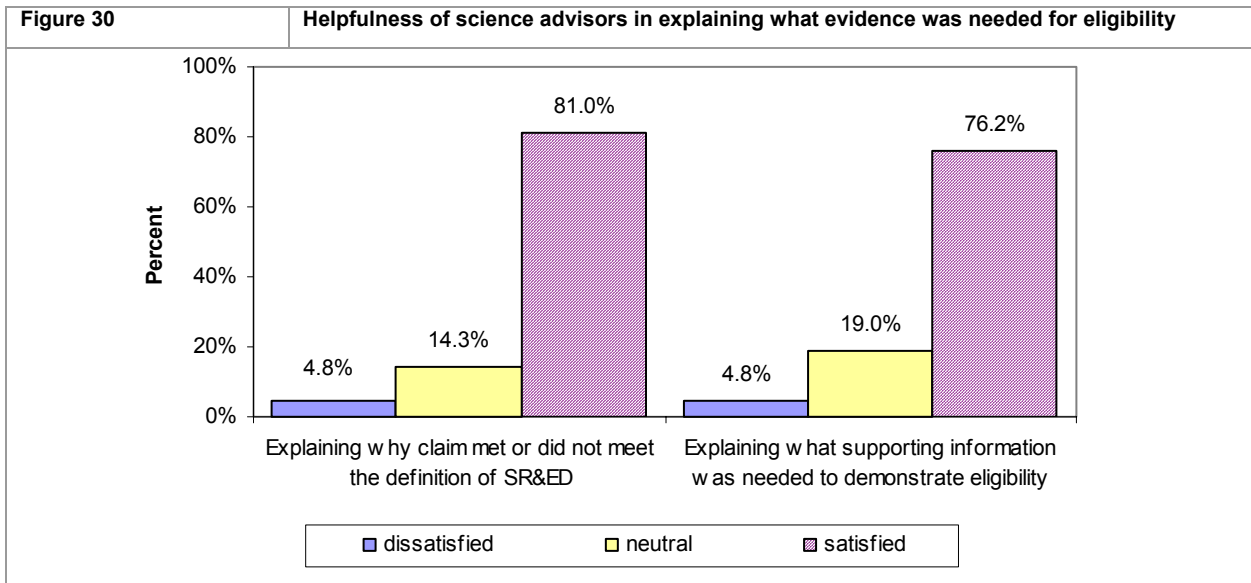
The key SR&ED concerns expressed by some respondents included: interpretation of what constituted eligible SR&ED activities (29.6%), interpretation of what expenditures are to be allowed (11.1%), and problems of process or administrative nature (3.7%). The majority (90%) of respondents attempted to resolve any problems with the science advisor/technical reviewer and or to their first-line manager. Of these respondents, 85.7% were satisfied with the resolution of they SR&ED concerns.

## 5.4 CCRA science advisor

A CCRA science advisor or a consultant, engaged by CCRA, is responsible for reviewing the technical work. In the current study, only 8.3% of respondents noted that the technical reviewers/scientific advisor was not knowledgeable about the technological developments in the area where their company was working. This is an improvement from the 1999 study, where 19% of respondents indicated that the science advisor/consultant who conducted their last science review was unfamiliar with the R&D occurring within their sector.



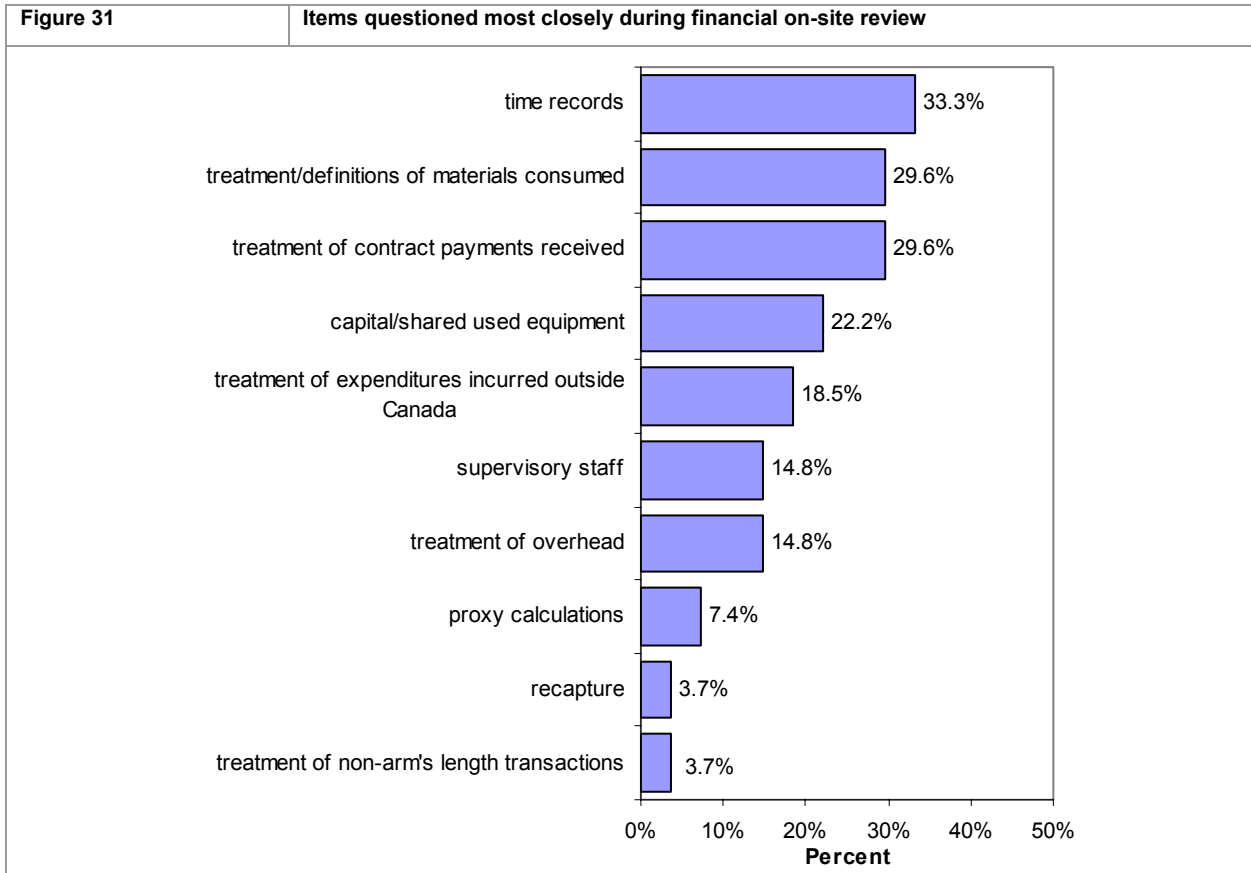
Respondents were asked to rate how satisfied they were with the helpfulness of the science advisors/technical reviewers in explaining what evidence was needed for eligibility. Figure 30 reveals that the majority (81%) of participating companies found their science advisor to have been helpful in explaining why a claim met or did not meet the definition of SR&ED, and what evidence is needed to demonstrate eligibility (76%).



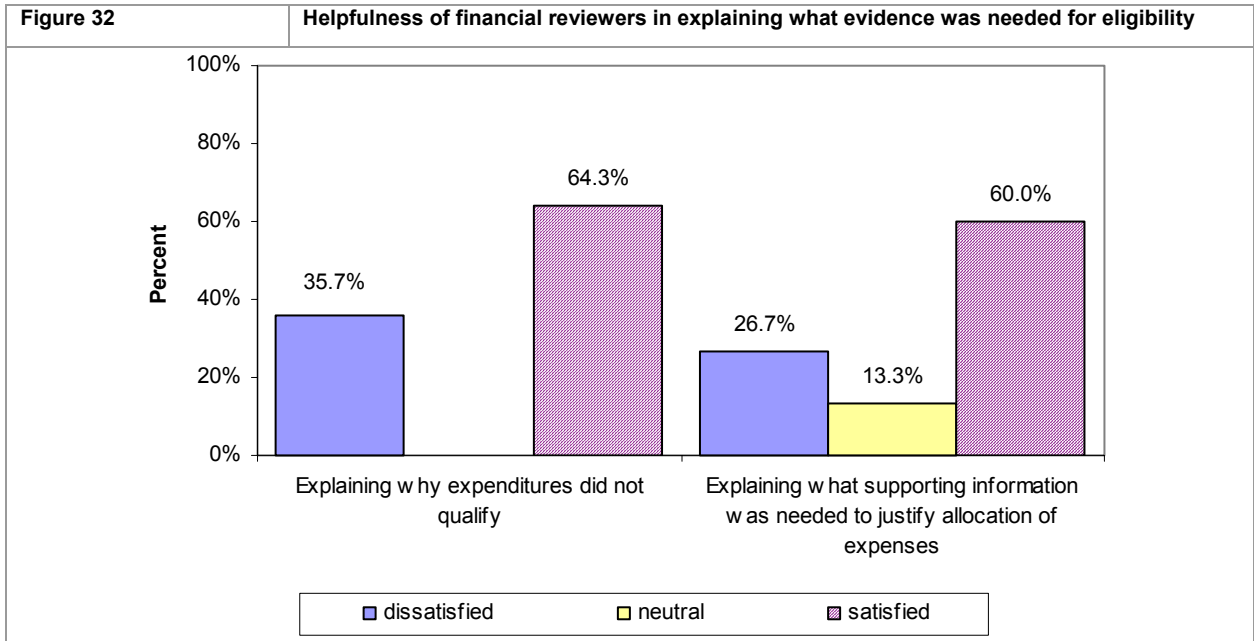
## 5.5 CCRA financial reviewer

A CCRA financial reviewer is responsible for examining the costs associated with the claimed projects. According to respondents the specific items of their claim that were questioned most closely by the financial reviewer were: time records (33.3%), treatment of contract payments received (29.6%), and

treatment/definition of materials consumed (29.6%). As shown in Figure 31, treatment of non-arms length transactions, recapture and proxy calculations were claim items least likely to be questioned by the financial reviewer.

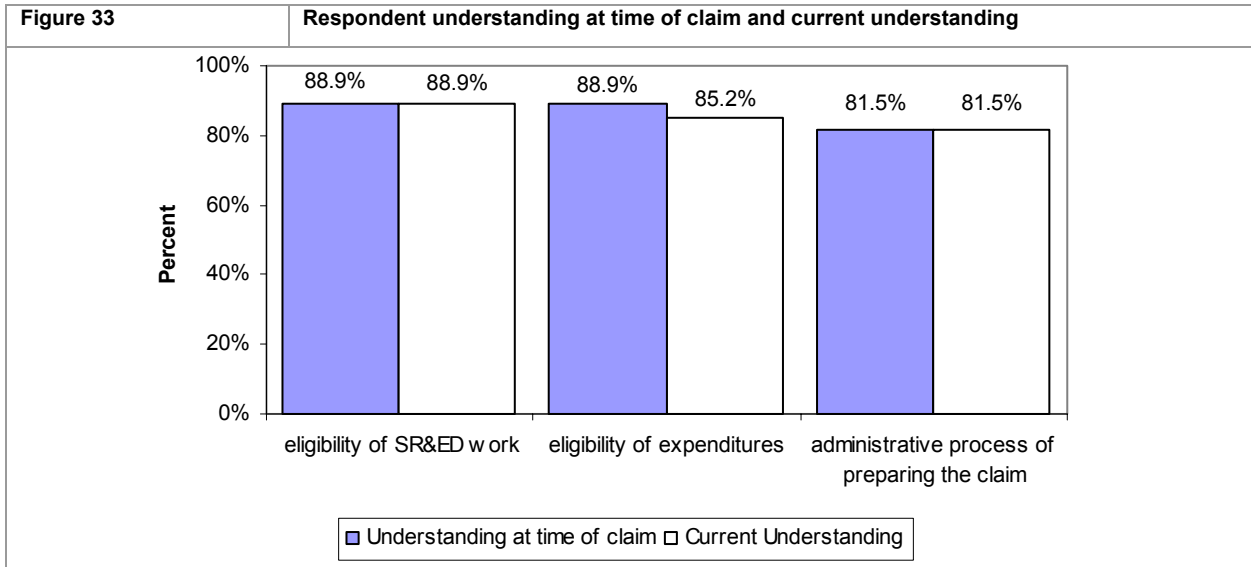


Respondents were asked to rate how satisfied they were with the helpfulness of the financial reviewers in explaining which allocations of expenses were appropriate and what evidence was needed to justify these allocations. Figure 32 reveals that one-third (35.7%) of respondents did not find their financial reviewer to be helpful in explaining why expenditures did not qualify, and one-quarter (26.7%) noted that they were not helpful in explaining what supporting information was needed to justify allocation of expenses to SR&ED. One explanation is that there have been recent changes to the eligibility of various expenditures. Consequently, many financial reviewers, who are still familiarizing themselves with these changes, may have difficulty explaining to claimants why certain expenditures no longer qualify.

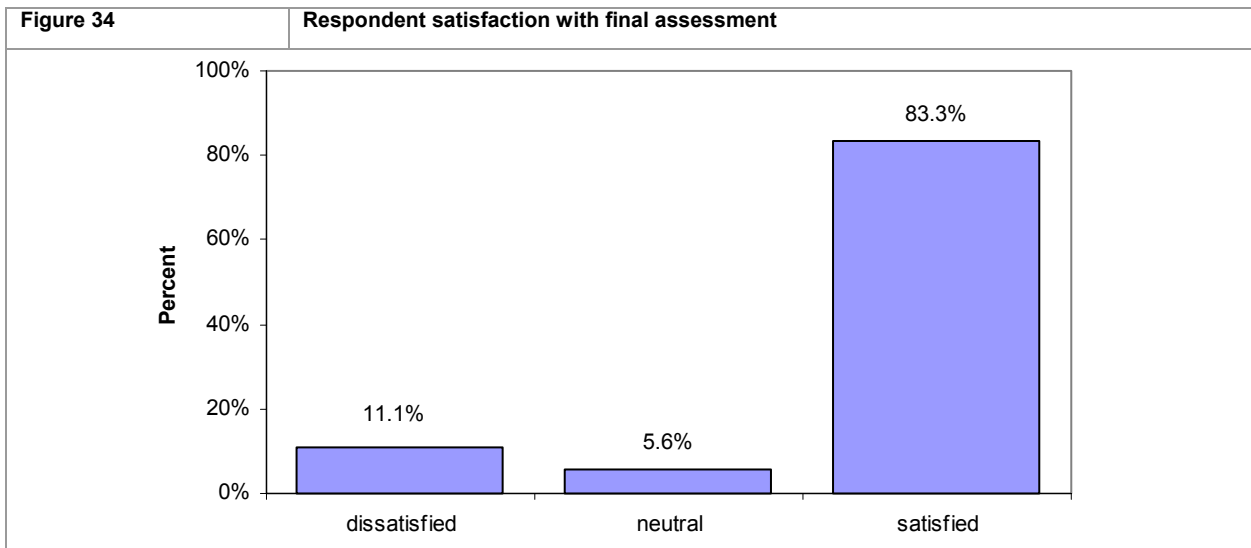


## 5.6 Claimant understanding

How well companies understand the SR&ED Program — what work is eligible as scientific research and experimental development and what are eligible SR&ED expenditures — is key in determining how satisfied claimants will be with the program. The more knowledgeable they are with what qualifies as SR&ED work and associated eligible expenses the less frustrated they will be when CCRA staff review their claims. The figure below reveals that the majority of respondents have maintained a good understanding of the SR&ED Program, both at the time they completed their claim and currently. During our interviews with the case study companies, many noted that they worked hard to maintain a close working relationship with CCRA, e.g., they are involved with CCRA working-level committees.



In fact, when respondents were asked their satisfaction with their final assessment, the majority (83.3%) revealed they were satisfied. Figure 34 reveals that only 11.1% of respondents indicated that they were dissatisfied with the final assessment.



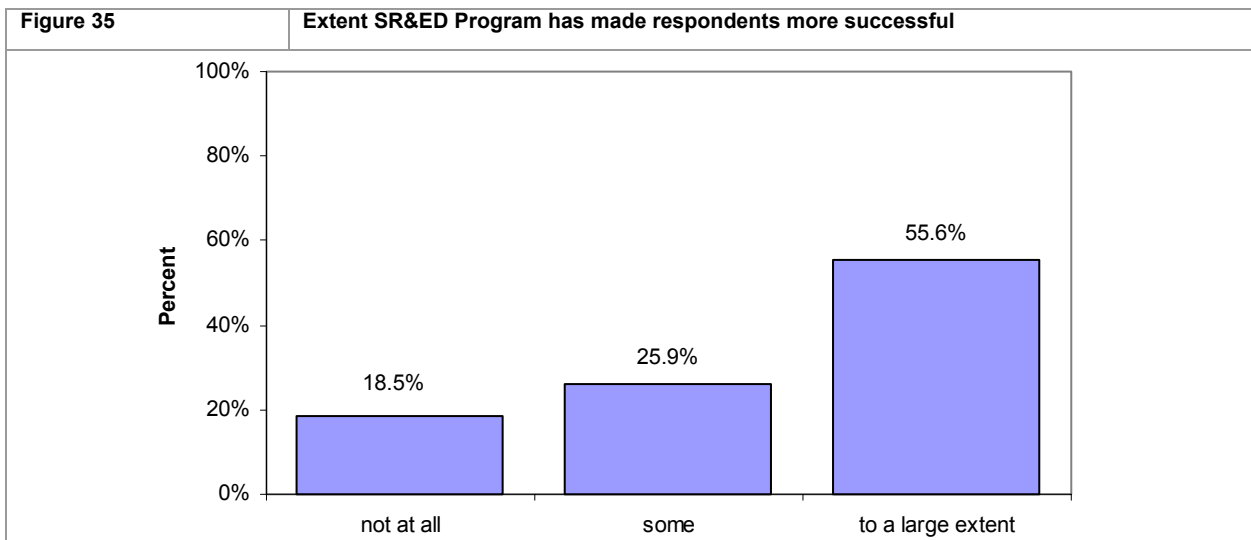
Some 64.7% of respondents indicated that they received the total amount (100%) claimed. In fact, 88.2% of respondents stated that they received over 80% of their SR&ED claim.

## 5.7 Assisting Canadian companies in conducting SR&ED in Canada

The SR&ED Program provides tax incentives to Canadian businesses that conduct SR&ED in Canada. The program is intended to encourage businesses to conduct SR&ED that will lead to new, improved, or technologically advanced products or processes. Approximately one-third (63%) of respondents indicated

that their SR&ED expenditures have increased this year in comparison to last year. When asked if the change in SR&ED expenditures was a direct result of the tax credits received from the SR&ED Program, over one-third (35.3%) indicated that the change was attributable to the program. This is slightly lower than the 57.3% of Web survey respondents who indicated that the changes were attributable to the program.

As shown in Figure 35, slightly over one-half (55.6%) of respondents indicated that the SR&ED Program has assisted their company to be more successful.



In fact, respondents indicated that the SR&ED Program was effective in encouraging their company to conduct more R&D (73.1%), and has also been effective in increasing company profitability (58.3%), and helping with company cash flow (50%).

