

Research and Development Tax Credit

This information has been prepared to assist you in understanding the Saskatchewan Research and Development Tax Credit. It is provided as a general guide and should not be considered a substitute for the enacting provisions in *The Income Tax Act* of Saskatchewan.

General

In the 1998-99 Budget, Saskatchewan introduced a new non-refundable income tax credit for corporations to encourage investment in research and development and the expansion of knowledge-based industries in the province.

The Saskatchewan Research and Development (R&D) Tax Credit is available to all corporations filing a T2 Corporation Income Tax return and having a permanent establishment in Saskatchewan with some allocation of income to Saskatchewan. The R&D Tax Credit is equal to 15 per cent of all eligible expenditures on scientific research and experimental development incurred in the province after March 19, 1998.

The R&D Tax Credit can be used to reduce current-year Saskatchewan Corporation Income Tax (CIT) liability. Carryforward provisions allow corporations with no current year CIT liability to carry unused tax credits back three taxation years or forward ten taxation years. (The 2002-03 Saskatchewan Budget extended the carry forward provision from seven to ten years, retroactive to March 20, 1998.) Tax credits cannot, however, be carried back to reduce tax in taxation years ending before March 20, 1998. Tax credits may be carried through trusts and partnerships, and through certain corporate wind-ups and amalgamations, but cannot be carried back to predecessor corporations.

Definition of R&D

The term “scientific research and experimental development” as defined in subsection 248 (1) of the federal *Income Tax Act* means systematic investigation or search that is carried out in a field of science or technology by means of experiment or analysis and that is:

- Basic research (i.e., work undertaken for the advancement of scientific knowledge with out a specific practical application in view);
- Applied research (i.e., work undertaken for the advancement of scientific knowledge with a specific practical application in view); or,
- Experimental development (i.e., work undertaken for the purpose of achieving technological advancement for the purpose of creating new, or improving existing, materials, devices, products or processes, including incremental improvements thereto).

Subsection 248(1) further includes in the definition of scientific research and experimental development work undertaken by or on behalf of the taxpayer with respect to engineering, design, operations research, mathematical analysis, computer programming, data collection, testing or psychological research, where the work is commensurate with the needs, and directly in support of, basic research, applied research or experimental development that is undertaken in Canada by or on behalf of the taxpayer.

Finally, subsection 248(1) excludes from the definition of scientific research and experimental development work with respect to market research or sales promotion; quality control or routine testing of materials, devices, products or processes; research in the social sciences or the humanities; prospecting, exploring or drilling for, or producing, minerals, petroleum or natural gas; the commercial production of a new or improved material, device or product or the commercial use of a new or improved process; style changes; or, routing data collection.

Eligible Expenditures

Eligible expenditures for the purposes of the Saskatchewan R&D Tax Credit are determined by reference to the definition of “qualified expenditures” in subsection 127(9) of the federal *Income Tax Act*. Qualified expenditures are further defined to include amounts described in subsection 37(1)(a) and subsection 37(1)(b)(l) of the federal Act. This includes amounts incurred in respect of eligible salaries and wages and eligible capital property.

It is important to note that the Saskatchewan R&D Tax Credit is considered to be government assistance under the federal *Income Tax Act*. As a result, it reduces both the amount of the expenditure which is eligible for the federal R&D tax credit, and the amount which is added to the R&D expense pool for normal income tax deduction purposes. Companies are permitted to renounce their claim to the Saskatchewan R&D Tax Credit if they wish to maximize their federal R&D credit.

Additional information on the details of eligible R&D expenditures may be obtained by consulting Canada Customs and Revenue Agency’s (CCRA) *Interpretation Bulletin IT-151R4 Scientific Research and Experimental Development Expenditures*, and CCRA’s *Information Circular IC 86-4R3 Scientific Research and Experimental Development*.

Administration

The Saskatchewan R&D Tax Credit is administered by CCRA on behalf of Saskatchewan under the Canada-Saskatchewan Tax Collection Agreement. Under the terms of this agreement, definitions contained in the federal *Income Tax Act* apply for the purposes of the Saskatchewan R&D Tax Credit. As such, official rulings on R&D Tax Credit eligibility can be provided only by CCRA.

The Saskatchewan R&D Tax Credit may be claimed by including with the corporations' annual T2 Corporation Income Tax Return a completed Schedule 403 describing all eligible expenditures and the total credit claimed. The amount of the credit should be recorded in the Saskatchewan section of Part 2 on Schedule 5, and then included as part of total net provincial taxes payable on line 760 of the T2 Return.

Copies of Schedule 403 are available from CCRA Tax Services Offices.

For Further Information

Further information on the Saskatchewan R&D Tax Credit may be obtained at the addresses and telephone numbers below.

Taxation and Intergovernmental Affairs Branch
Saskatchewan Finance
2350 Albert Street
REGINA SK S4P 4A6

(306) 787-6722

Canada Customs and Revenue Agency Tax Services Regina Office
1955 Smith Street
REGINA SK S4P 2N9

(306) 780-6052
1-800-959-8281 (General Inquiries)

Canada Customs and Revenue Agency Tax Services Saskatoon Office
340 3rd Avenue North
SASKATOON SK S4K 0A8

(306) 975-4620
1-800-959-8281 (General Inquiries)

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