



Canada Revenue
Agency

Agence du revenu
du Canada

**CANADA REVENUE AGENCY
SCIENTIFIC RESEARCH AND
EXPERIMENTAL DEVELOPMENT
TAX INCENTIVE PROGRAM
CLAIMANT SATISFACTION STUDY
FINAL REPORT
MAY 10, 2006**

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1.0 Executive Summary

Highlights of Key Findings

Overall Satisfaction with SR&ED Program

Overall, most survey respondents (71%) said they were satisfied with the Canada Revenue Agency's (CRA's) administration of the Scientific Research and Experimental Development (SR&ED) program. Survey respondents who were satisfied with the CRA's administration of the SR&ED program tended to say they received good customer service, the program supported their business and allowed them to grow, or the program had clear guidelines. Survey respondents who were dissatisfied with the CRA's administration of the SR&ED program indicated that the process was too lengthy, the process was unreasonable, or the program guidelines were confusing or unclear.

Most respondents agreed that the CRA had processed their claims consistently from year-to-year (79%) and were satisfied the length of time it took for the CRA to process their claim (60%).

Outcomes of SR&ED Program

Fully 80% of respondents said that the SR&ED program allows them to keep existing research and development (R&D) work in Canada, while about the same percentage said that the program allows them to undertake new R&D projects. About 70% of respondents said that the SR&ED program allows them to either retain or hire new employees.

Respondents said the SR&ED program is effective at encouraging companies to both stay in Canada (73%) and conduct more SR&ED work in Canada (82%). Respondents also said the SR&ED program has a positive effect on their companies' cash flow and profitability.

SR&ED Services

While 61% were aware of the public information and industry-specific seminars, only about half of all respondents knew about the Preclaim Project Review (PCPR) service and First-Time Claimant service, and only 32% knew about the Account Executive service.

Of the SR&ED program's four services explored in the survey (Public information and industry-specific seminars, First-Time Claimant service, PCPR service, and Account Executive service), use was not high. Among those who were aware of each service, use ranged from 41% for the information seminars to a low of 18% for the First-Time Claimant service. Among those who used each service, respondents were satisfied with the three SR&ED services available to claimants on an individual basis: Account Executive (85%), PCPR (80%), and First-Time Claimant (84%). The public information and industry-specific seminars received a slightly lower satisfaction score, with 77% of respondents satisfied.

First Claim

About one-third (34%) of respondents said they had claimed SR&ED tax credits for the first time since January 1, 2002. Of these companies and individuals, the most common reasons for starting to file SR&ED claims were because they just became aware of the SR&ED program or had undertaken a new project.

Claim Preparation

Respondents seemed to indicate that understanding the process or rules for preparing the claim was easier than completing and understanding the forms themselves. Scores for ease of claim preparation ranged from a high of 58% for “knowing what expenses are eligible”, to a low of 40% for understanding Form T661.

In terms of resources available to support the claimants in the preparation of their claim, survey respondents were most satisfied with the SR&ED staff. In particular, survey respondents were satisfied with SR&ED staff in terms of their knowledge (70% agreed), ability to answer questions (69%), and their ability to provide timely information (64%). Meanwhile, respondents were less satisfied with the SR&ED Web site (42%) as well as publications (48%), procedures (42%), and other documents (37%).

On-Site Review of Claim

About two-thirds (65%) of survey respondents indicated that the research and technology advisor was familiar with the industry sector associated with the company’s claim. Research and technology advisors were widely viewed as being professional (83% satisfied), fair (78% agreed), and knowledgeable (73% agreed). Survey respondents were slightly less likely to agree that research and technology advisors went the ‘extra mile’ for them (58% agreed).

Most survey respondents (80%) indicated that the financial reviewer was familiar with the financial issues associated with the company’s claim. Financial reviewers were widely viewed as being professional (87% satisfied), fair (83% agreed) and knowledgeable (82% agreed). Survey respondents were slightly less likely to agree that financial reviewers went the ‘extra mile’ for them (66% agreed).

Claim Outcome

The vast majority (82%) of respondents said they were satisfied with the outcome of their most recently reviewed claim. Most survey respondents (69%) reported that the CRA allowed more than three-quarters of their claim.

Concern Resolution

Just 17% of survey respondents said they had a concern regarding their most recently reviewed SR&ED claim. Close to half (43%) of these respondents were dissatisfied with the resolution of their concern. The main reason for respondents' dissatisfaction with the resolution of their concern was that the process took too long.

Company Intentions Regarding Claiming Future SR&ED Tax Credits

Most survey respondents (88%) indicated that they plan to make future SR&ED tax credit claims. In fact, only 4% of respondents said they would not continue claiming, while another 8% said they didn't know. Of the 4% of respondents who indicated that they plan to discontinue claiming SR&ED tax credits (representing a total of 53 survey respondents), they tended to report that this was because the claimant was no longer doing R&D, the process was too time-consuming, the cost of claiming exceeded the benefits received, the process was too complicated, they had cutbacks in R&D spending, or they were moving their R&D operations outside of Canada.

Background

The Canada Revenue Agency (CRA) commissioned Phase 5 to conduct a survey to measure satisfaction with the Scientific Research and Experimental Development (SR&ED) Tax Incentive Program. While the focus of the questionnaire remained the same as a similar study commissioned in 2002, several features of the methodology were significantly updated. As a result, it would be statistically unsound to attempt to draw comparisons between the 2002 and 2005 results; therefore, none are included within this report.

The primary objectives of the research included:

- To measure overall satisfaction of businesses and individuals (and their representatives) who claim SR&ED tax credits;
- To determine satisfaction with specific services and the administration of the program; and
- To assess performance on potential drivers of satisfaction for specific services.

Results for this study will be used as a benchmark for the SR&ED program so that future studies will be able to measure progress as well as current levels of satisfaction.

Methodology

The survey was designed by the CRA in close consultation with senior researchers from Phase 5. The final questionnaire included 48 content and demographic questions.

The population of the study consisted of companies and individuals who had made an SR&ED tax credit claim since January 1, 2002. The CRA mailed invitations to the survey to a random sample of 13,411 corporations and individual claimants. Each invitation contained a link to access the on-line survey on Phase 5's Web site and a unique password.

The survey was conducted between September 6 and October 31, 2005. A total of 1,426 responses were received for the survey, resulting in an overall response rate of 11%.

The results for questions applicable to the total sample are accurate to within +/- 2.5%, 19 times out of 20.

Profile of Survey Respondents

A sample of SR&ED claimants and claimants' representatives from across Canada responded to the survey. Of those who completed the survey:

- the vast majority (91%) were claimants, while the remaining 9% were claimants' representatives;
- the majority (64%) were involved in both the financial and scientific components of the SR&ED claim;
- about three-quarters (74%) worked for Canadian-controlled private corporations (CCPCs);
- the majority were associated with either the software/information technology (29%) or manufacturing (28%) sector;
- most (78%) were associated with companies with fewer than 50 employees; and
- most (78%) were associated with companies with less than \$10 million in annual revenue.

2.0 Introduction

This report contains the results of an evaluation of the Scientific Research and Experimental Development (SR&ED) Tax Incentive Program, conducted for the Canada Revenue Agency (CRA). This study serves to establish a baseline level of awareness, use and satisfaction with the administration of the SR&ED program among Canadian companies and individuals who have made claims within the past three years. Future studies will compare awareness, use and satisfaction with the SR&ED program to the 2005 baseline measure to track changes over time.

2.1. Background

2.1.1. Background Information on the SR&ED Program

The SR&ED program is a federal tax incentive program introduced in the 1980s to encourage Canadian businesses of all sizes and in all sectors to conduct research and development (R&D) in Canada that will lead to new, improved, or technologically advanced products or processes. Under the SR&ED program, qualifying businesses get money back in the form of a refund, a reduction of taxes payable, or both. In addition to the federal incentive program, several provinces and territories have complementary programs, some of which are administered by the CRA.

The objective of the SR&ED tax incentive program is to deliver the SR&ED tax credits to all companies and individuals claiming SR&ED in a timely, consistent, and predictable manner, while encouraging R&D performers to assess their own claims in compliance with tax laws, policies, and procedures through self-compliance with the SR&ED legislation in the *Income Tax Act*.

The SR&ED program is a major element in the federal government's strategy to improve competitiveness, given the strong link between investments in science and technology and economic growth. Currently, this program is the largest single source of federal funding for Canadian industrial R&D and is one of the most generous tax-based SR&ED support programs in the industrialized world, serving some 11,000 claimants each year and providing an estimated \$1.8 billion in tax credits.

The SR&ED program is coordinated through tax services offices (TSOs) in Halifax, Québec, Montréal, Laval, Ottawa, Toronto, Mississauga, Hamilton, Calgary, and Vancouver.

2.1.2. Background Information on the SR&ED Survey

In 2002, a multi-faceted study was conducted between July and November, 2002 that involved a Web-based survey and in-depth personal interviews or case studies. The Web survey gathered feedback from 306 claimants, while in-depth interviews were undertaken with 27 claimants.

In the spring of 2005, the CRA commissioned Phase 5 to conduct an updated SR&ED survey. While the focus of the questionnaire remained the same – namely, to measure satisfaction with the SR&ED program – several features of the methodology were significantly updated. The key changes between the 2002 and 2005 surveys are highlighted in the exhibit below.

| Exhibit 1. 2002-2005 Methodological Changes | | |
|--|--|--|
| | 2002 Survey | 2005 Survey |
| Recruiting methodology | 815 claimants invited by telephone to participate | 13,411 claimants invited by letter to participate |
| Accessibility | Open only to invited claimants | All claimants and their representatives were able to participate |
| Claimants excluded | Those who had objected or appealed | None were excluded |
| Statistical representation | 306 Web respondents; 27 case study respondents | 1,426 Web respondents |
| Survey design | Questions differed between Web survey and case studies | One standard set of questions for all respondents |

These changes were made in order to improve the scope and coverage of the study population in order to enhance both the representativeness of the sample participants and reliability of the final results.

As a result of the substantial methodological changes, it would be statistically unsound to attempt to draw comparisons between the 2002 and 2005 results; therefore, none are included within this report. However, results for the 2005 study will be used as a benchmark for the SR&ED program to track changes for future studies.

2.2. Research Objectives

The primary objectives of this research included:

- To measure overall satisfaction of businesses and individuals (and their representatives) who claim SR&ED tax credits;
- To determine satisfaction with specific services and the administration of the program; and
- To assess performance on potential drivers of satisfaction for specific services.

3.0 Methodology

3.1. Questionnaire Design

The 2005 survey was designed by the CRA in close consultation with senior researchers from Phase 5. The design phase included workshops with private sector members of the SR&ED Partnership Committee.

The final questionnaire included 48 content and demographic questions. On many questions, respondents were asked to use a five-point scale. The scale for these questions ranged from one to five, where one was the most negative response (e.g. very dissatisfied, strongly disagree) and five was the most positive response (e.g. very satisfied, strongly agree).

3.2. Data Collection

The population of the study consisted of companies and individuals who had made an SR&ED tax credit claim since January 1, 2002. CRA selected a random sample of 13,411 corporations and individual claimants to be included in the study using a sampling plan developed by Phase 5.

In September 2005, the CRA mailed invitations to the survey to claimants, which contained a link to the survey on Phase 5's Web site and a unique password to access the survey on-line.

The survey was conducted between September 6 and October 31, 2005. In total, 1,426 responses were received for the survey, resulting in an overall response rate of 11% of the original 13,411 invitees. This response rate is slightly lower than other comparable online surveys conducted by Phase 5 for government clients.

Respondents must have answered all relevant questions in order to be included in the final sample. The median survey completion time was 13 minutes.

| Exhibit 2. Breakdown of Survey Invitees | |
|--|---------------|
| | Number |
| Corporate claimants | 13,015 |
| Individual claimants | 396 |
| Total number of claimants invited | 13,411 |

| Exhibit 3. Survey Response Rate | |
|--|---------------|
| | Number |
| Number of invitations mailed | 13,411 |
| Completed surveys | 1,426 |
| Response rate | 11% |

Just over three-quarters (76%) of respondents answered the survey in English, while the remaining 24% responded in French.

3.3. Data Analysis

Survey questions were analyzed by the following demographic and profiling questions:

- Claimant type (claimant/representative); and
- Claimant's reported annual revenue.

Note: Unless otherwise noted, results are reported on an aggregate level. Statistically significant results for sub-groups are noted throughout the report.

3.4. Survey Representation

The survey results are based on a sample of all companies and individuals who have applied for an SR&ED tax credit since January 1, 2002. Companies and individuals who indicated that their last claim was filed before January 1, 2002 were excluded from the final survey sample.

At the analysis stage, the final survey data was weighted to ensure the results were representative of the population of claimants.

3.5. Completed Surveys and Margins of Error

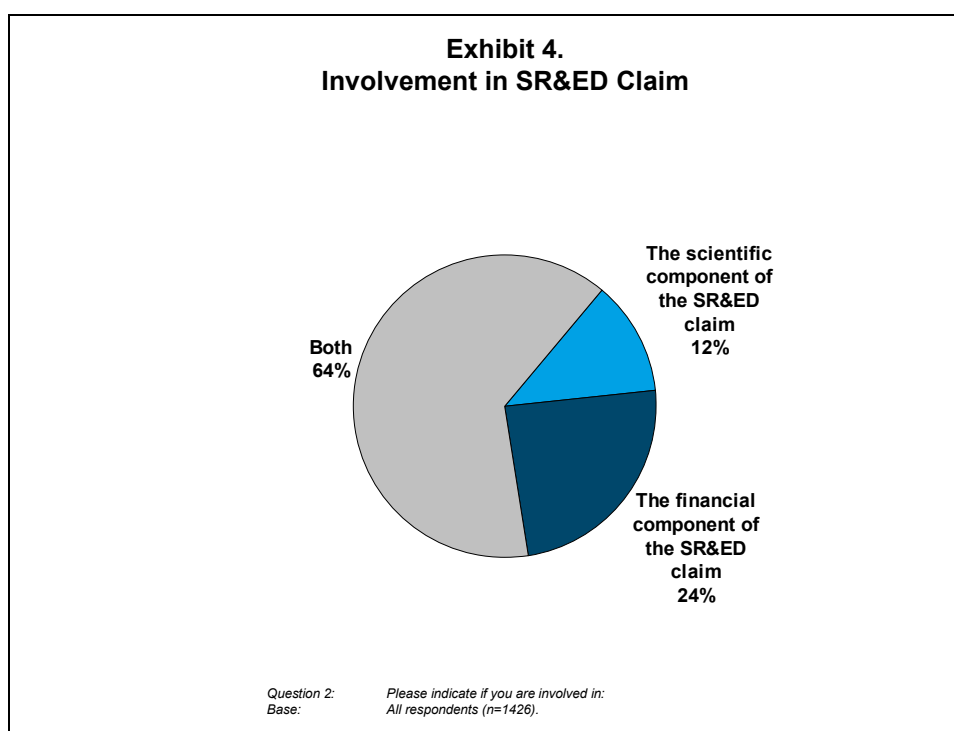
As with other research methodologies, participation in on-line surveys relies on self-selection. This may have introduced a degree of response bias (for example, companies or individuals who were especially satisfied or dissatisfied with the SR&ED program may have been more likely to complete the survey). This response bias is likely no greater than for other methods of data collection, and the overall survey results can be considered accurate within +/- 2.5%, 19 times out of 20. The margins of error on results presented for sub-groups (e.g. claimants vs. claimants' representatives) are slightly larger than for the overall survey results, since these figures are based on smaller sample sizes.

4.0 Profile of Respondents

A sample of SR&ED claimants and their representatives (n=1,426) from across Canada responded to the survey including both companies and individuals. The following exhibits outline some characteristics of these respondents.

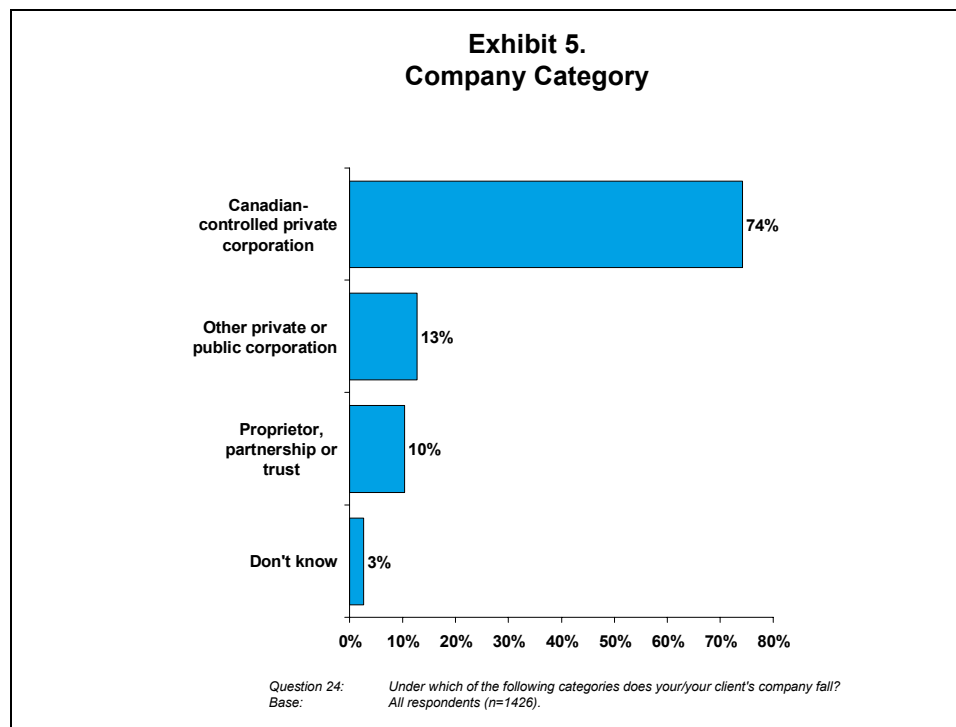
All survey respondents had filed a claim since January 1, 2002. The vast majority (91%) of these respondents were claimants, while the remaining 9% were claimants' representatives.

The majority of respondents (64%) were involved in both the financial and scientific components of the SR&ED claim. A further 24% were involved in only the financial component, while 12% were involved in the scientific component only.



Respondents from companies with revenue over \$10 million were more likely to have been involved in only the financial component of the claim (42%), while respondents from companies with revenue under \$10 million were more likely to have been involved in both components (68%).

Survey respondents most often worked for Canadian-controlled private corporations (CCPCs).



Respondents from companies with revenue under \$50 million more often work for CCPCs (78% compared to 28% for companies with higher revenue) or proprietors, partnerships or trusts (11% compared to 2%). Meanwhile, respondents from companies with revenue over \$50 million more often work for other private or public corporations (68% compared to 9% for companies with lower revenue).

Most SR&ED claimants had head offices and conducted SR&ED work in Ontario. Many SR&ED claimants were also based in, or conducted SR&ED work in, Quebec, British Columbia and Alberta.

| Exhibit 6. Location of Canadian Head Office and Most Recent SR&ED Work | | |
|---|--------------------|-----------------------------------|
| Province/Territory | Head Office | Most Recent SR&ED Work |
| Ontario | 43% | 46% |
| Quebec | 23% | 25% |
| British Columbia | 15% | 17% |
| Alberta | 9% | 11% |
| Nova Scotia | 2% | 3% |
| Manitoba | 2% | 3% |
| New Brunswick | 2% | 3% |
| Saskatchewan | 1% | 2% |
| Newfoundland and Labrador | 1% | 1% |
| Prince Edward Island | <1% | <1% |
| Northwest Territories | 0% | <1% |
| Yukon | <1% | 0% |
| Nunavut | 0% | 0% |

Q41: *In which province or territory is your company's/client's Canadian head office located?*

Q42: *Regarding your company's/client's most recent SR&ED claim, in which province(s) or territory(ies) did your company/client perform its SR&ED work? (Select all that apply)*

Base: *All respondents (n=1426).*

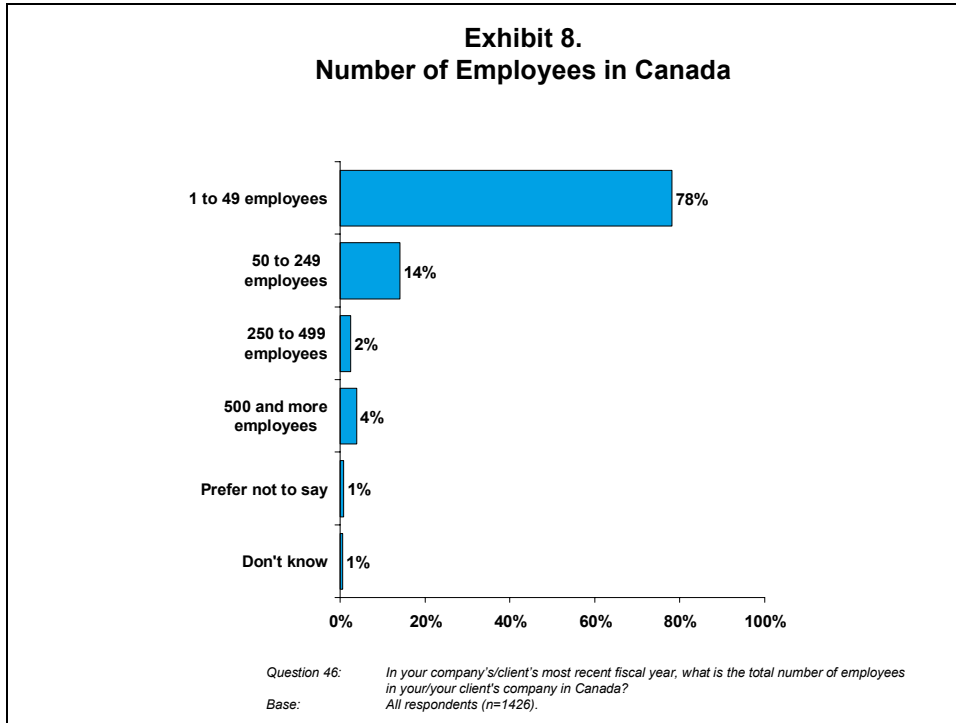
The majority of respondents were associated with either the software/information technology (29%) or manufacturing (28%) sector.

| Exhibit 7. Industry Sector | |
|---------------------------------------|-------------------------|
| | % of respondents |
| Software/IT | 29 |
| Manufacturing | 28 |
| Hardware/Electronics | 10 |
| Machinery & Equipment | 9 |
| Agriculture | 8 |
| Environmental | 7 |
| Biotechnology | 6 |
| Oil & Gas | 5 |
| Automotive | 4 |
| Plastics & Materials | 4 |
| Aerospace | 3 |
| Chemicals | 3 |
| Food & Beverage | 3 |
| Services | 3 |
| Transportation | 3 |
| Pharmaceuticals | 2 |
| Forestry | 2 |
| Mining | 2 |
| Fisheries/Aquaculture | 2 |
| Medical/Health | 2 |
| Pulp & Paper | 1 |
| Telecommunications | 1 |
| Financial | 1 |
| Textiles | 1 |
| Other | 5 |

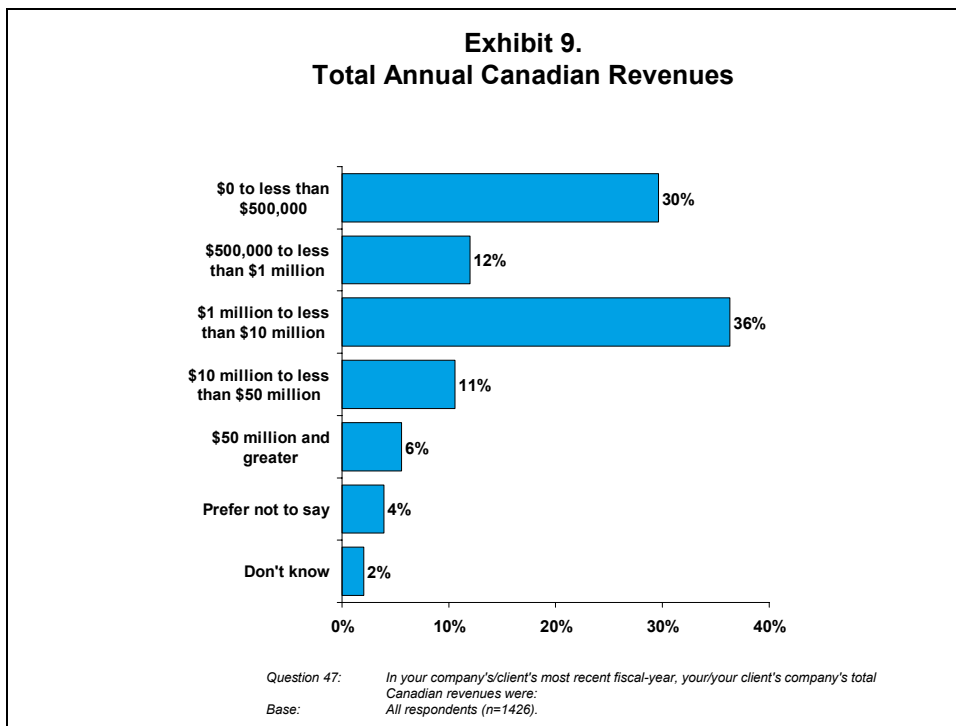
Q45: Which of the following industry sectors is best associated with your company's/client's most recent SR&ED claim: (Select all that apply)

Base: All respondents (n=1426).

Most respondents were associated with companies with fewer than 50 employees.



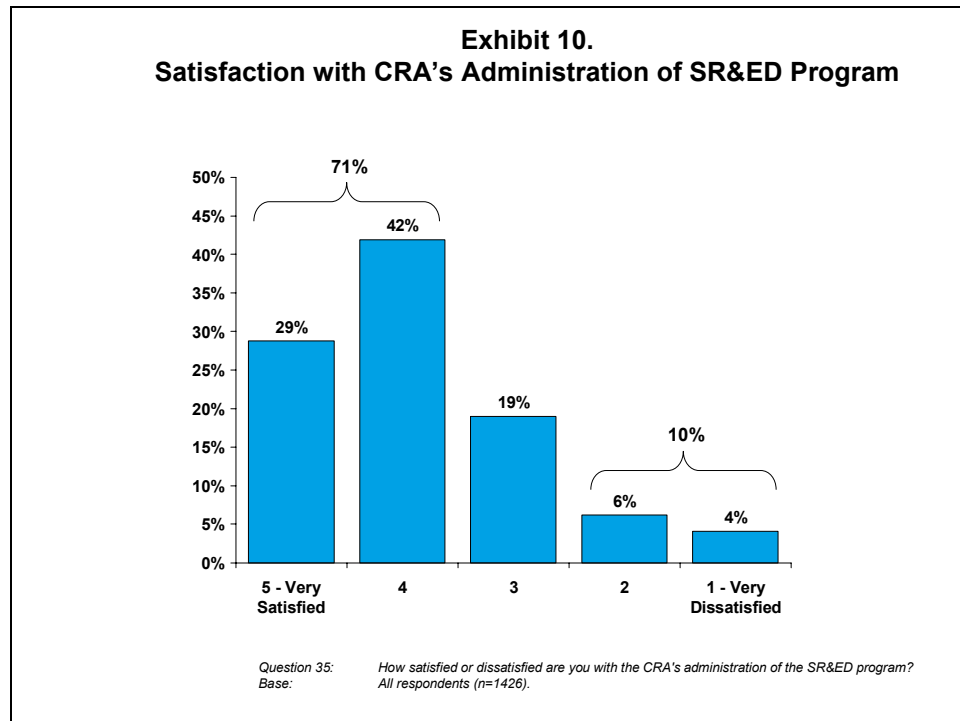
Most respondents (78%) were associated with companies with less than \$10 million in annual revenue, including 36% with revenue between \$1 and \$10 million.



5.0 Detailed Results

5.1 Overall Satisfaction with SR&ED Program

Overall, most survey respondents were satisfied with the CRA's administration of the SR&ED program, with 71% providing a rating of either four or five on the satisfaction scale. Just 10% of respondents said they were dissatisfied with the CRA's administration (providing a rating of one or two out of five).



The percentage of the claim that was allowed was strongly correlated with survey respondents' overall satisfaction with the CRA's administration of the SR&ED program. Fully 80% of those who received more than 75% of their claim said they were satisfied with the CRA's administration, while only 25% of those who received 25% or less of their claim said they were satisfied.

Respondents from companies with lower revenue were more satisfied with the CRA's administration of the SR&ED program than those from companies with higher revenue. Fully 73% of respondents from companies with revenue under \$50 million said they were satisfied, compared with 51% of those with revenue over \$50 million.

Survey respondents who were satisfied with the CRA's administration of the SR&ED program tended to say they received good customer service, the program supported their business and allowed them to grow, or the program had clear guidelines.

| Exhibit 11. | |
|--|------------------------------|
| Reasons for Satisfaction with CRA's Administration of SR&ED Program | |
| | Number of respondents |
| Good customer service | 72 |
| Supports the business/allows for growth | 51 |
| Clear guidelines | 36 |
| Quick process | 29 |
| Satisfied with program | 21 |
| Favourable outcome | 20 |
| Satisfied with research and technology advisor | 16 |
| Consistent results | 14 |
| Satisfied with financial reviewer | 10 |

Q36: Please explain:

Base: Respondents who were satisfied (4-5 out of 5) with the CRA's administration of the SR&ED program since January 1, 2002 (n=301).

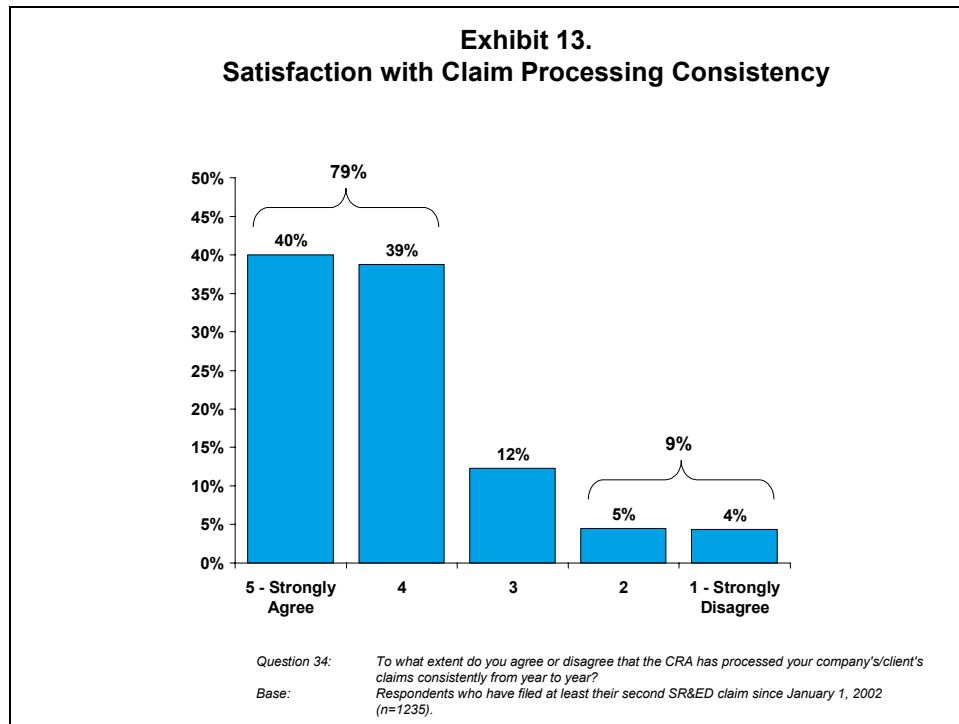
Survey respondents who were dissatisfied with the CRA's administration of the SR&ED program indicated that the process was too lengthy, the process was unreasonable, or the program guidelines were confusing or unclear.

| Exhibit 12. | |
|---|------------------------------|
| Reasons for Dissatisfaction with CRA's Administration of SR&ED Program | |
| | Number of respondents |
| Lengthy process | 27 |
| Unreasonable process | 12 |
| Confusing/unclear guidelines | 10 |
| Dissatisfied with research and technology advisor | 9 |
| Not worth the money | 9 |
| Inconsistent communications/guidelines/claims processing | 7 |
| Poor customer service | 6 |
| Dissatisfied with financial reviewer | 6 |
| Unfavourable outcome | 6 |
| Bureaucracy/red tape | 6 |
| Unfair treatment | 5 |
| Poor communication | 4 |

Q36: Please explain:

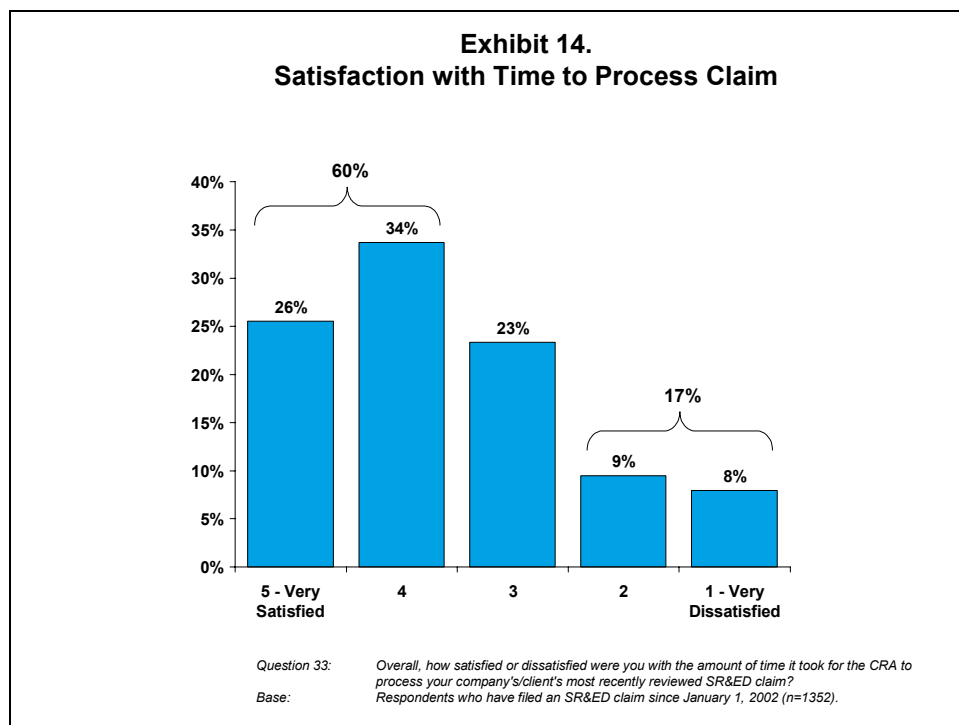
Base: Respondents who were dissatisfied (1-2 out of 5) with the CRA's administration of the SR&ED program since January 1, 2002 (n=104).

Respondents were satisfied with the claim processing consistency. Almost 80% of respondents provided a rating of four or five on the satisfaction scale.



Respondents from companies with lower revenue were more satisfied with the claim consistency than those from companies with higher revenue. Fully 81% of respondents from companies with revenue under \$50 million agreed that the claim had been processed consistently from year to year, as compared to 64% of those with revenue over \$50 million.

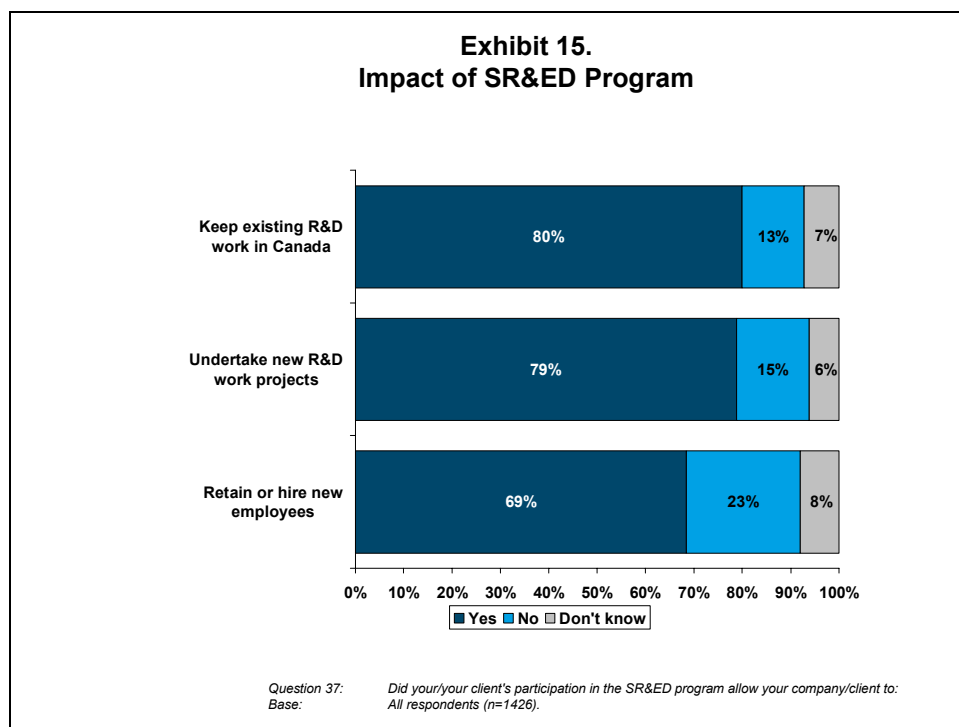
Respondents were less satisfied with the length of time it took for the CRA to process their claim. Sixty per cent provided a rating of four or five on the satisfaction scale, while almost one-quarter (23%) provided a neutral rating.



Respondents from companies with lower revenue were more satisfied with the time to process their claim than those from companies with higher revenue. About six in ten (61%) respondents from companies with revenue under \$50 million were satisfied with the process claim time, compared to 46% of those with revenue over \$50 million.

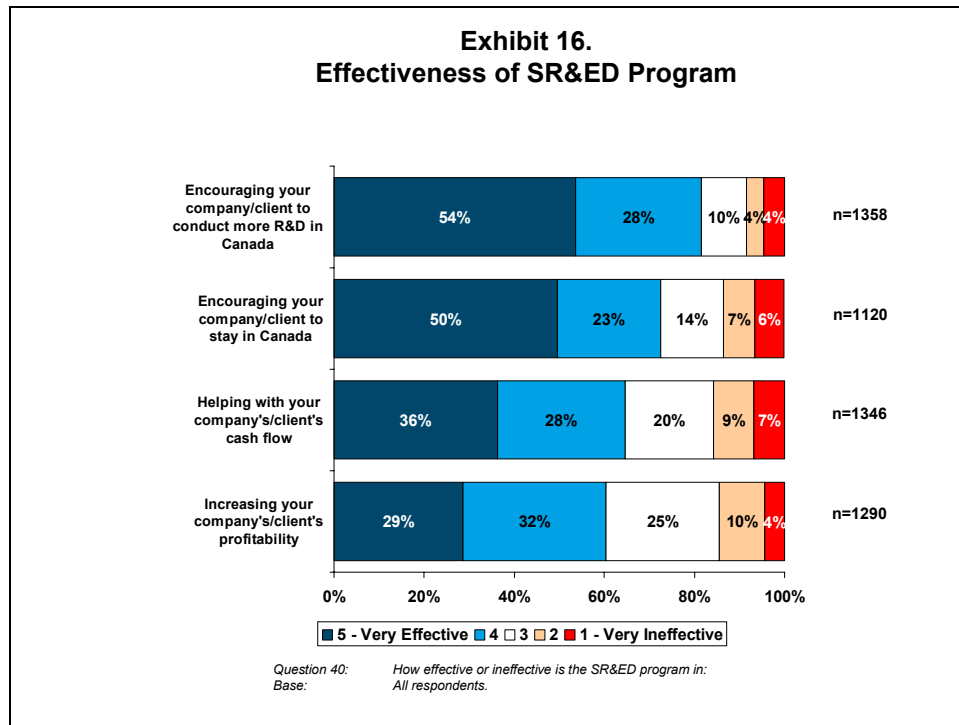
5.2. Outcomes of SR&ED Program

The findings suggest that the SR&ED tax credits have a positive impact on the majority of companies and individuals that participate in the program. Fully 80% of respondents said that the SR&ED program allows them to keep existing research and development work in Canada, while about the same percentage said that the program allows them to undertake new R&D projects. About 70% of respondents said that SR&ED has allowed them to either retain or hire new employees.



Respondents from companies with revenue under \$50 million were more likely to indicate that the SR&ED program had allowed them to keep existing work in Canada (82% compared to 60% for respondents from companies with revenue over \$50 million), undertake new R&D work projects (80% compared to 63%), and retain and hire new employees (72% compared with 43%).

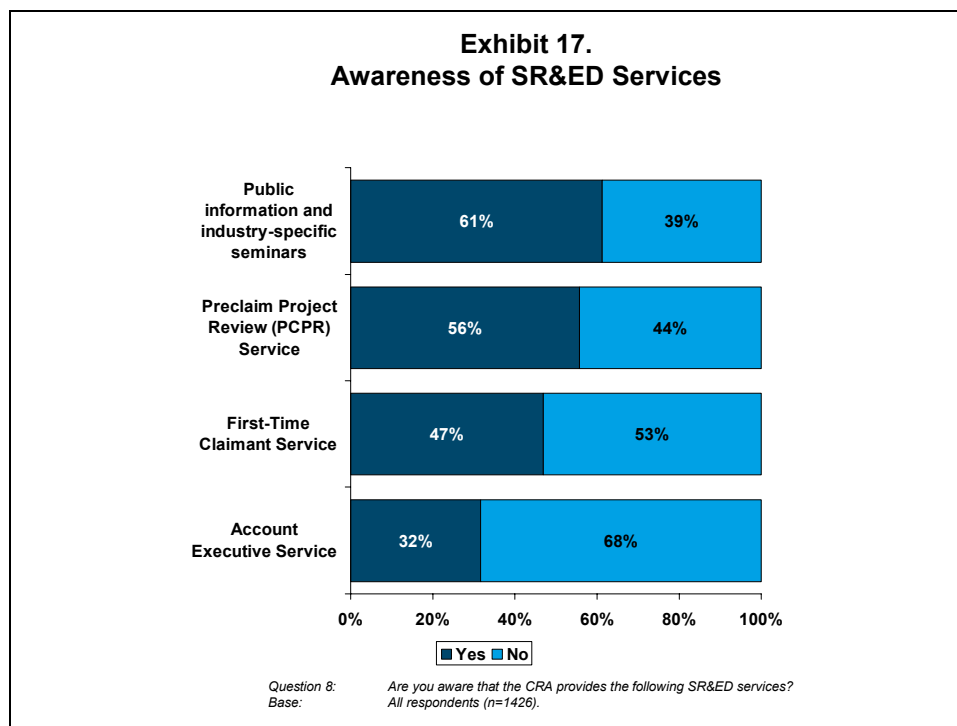
According to respondents, the SR&ED program is most effective at encouraging companies and individuals to conduct more R&D in Canada as well as to stay in Canada. The SR&ED program also has a positive effect on companies' cash flow and profitability, although these effects may not be as immediate or as direct.



Claimants' representatives were more likely to find the SR&ED program effective in helping Canadian companies with cash flow (75% compared to 64% for claimants). Companies with annual revenue under \$50 million were more likely to find the SR&ED program to be effective at encouraging more R&D in Canada (83% compared to 60% for companies with over \$50 million in annual revenue) and encouraging their company to stay in Canada (74% compared to 48%). Companies with annual revenue under \$10 million were more likely to find the SR&ED program to be effective at helping with their cash flow (69% compared to 47% for companies with over \$10 million in annual revenue) and increasing profitability (63% compared to 50%).

5.3. SR&ED Services

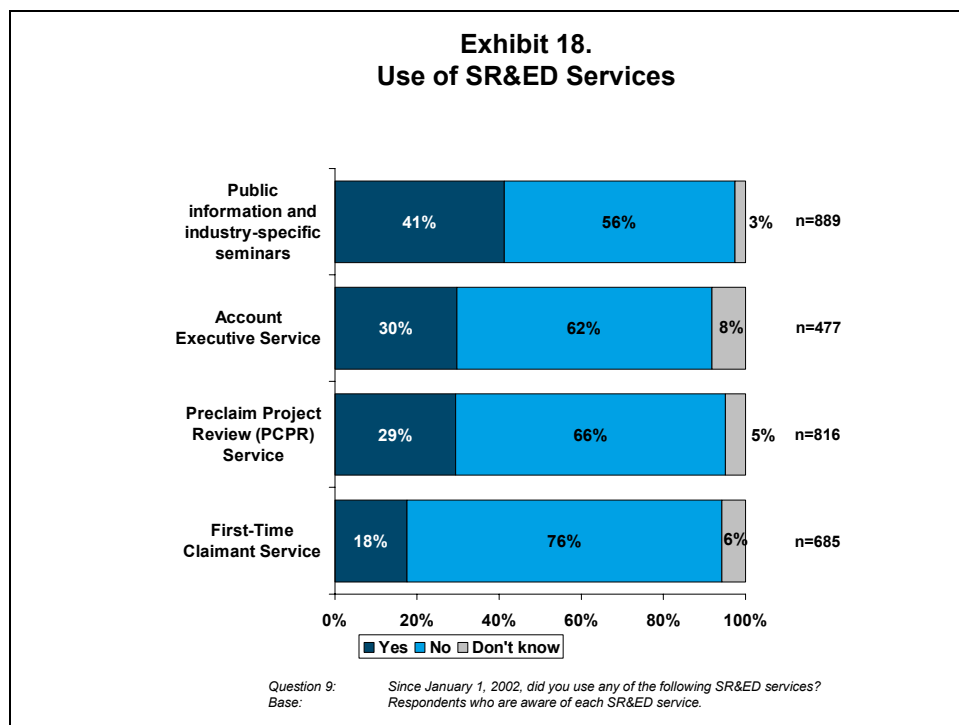
Many respondents were unaware of at least some of the SR&ED services available to claimants. While 61% were aware of the public information and industry-specific seminars, only about half of all respondents knew about the Preclaim Project Review (PCPR) service and First-Time Claimant service, and only 32% knew about the Account Executive service. About three-quarters (74%) had heard of at least one of the services, and 23% were aware of all four.



Claimants' representatives were more likely to be aware of all four of the services. For example, 81% of representatives were aware of the seminars, compared with only 59% of claimants. Fully 52% of representatives were aware of the Account Executive service, while only 30% of claimants were aware of the same service.

As well, respondents from companies with revenue over \$50 million were more likely to be aware of the PCPR service and the Account Executive service (78% and 57% respectively, compared with 55% and 31% for those with revenue under \$50 million).

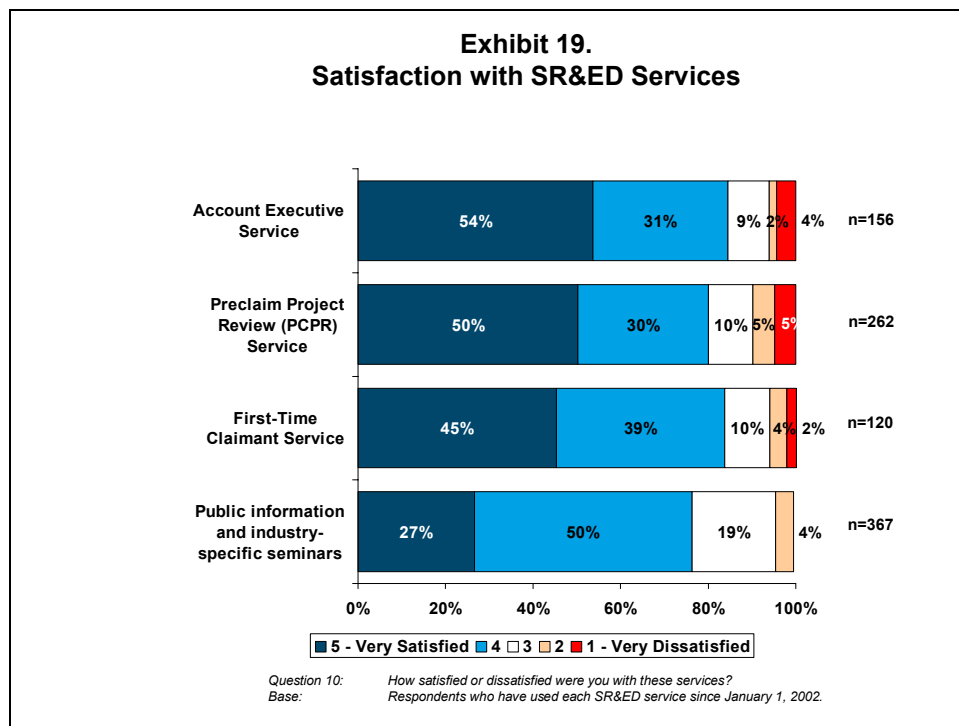
Use of the four SR&ED services was not high. Among those who were aware of each service, use ranged from 41% for the information seminars to a low of 18% for First-Time Claimant service.



Claimants were more likely to use the Account Executive service (31% compared to 20% for claimants' representatives). Conversely, claimants' representatives were more likely to attend the public information and industry-specific seminars (51% compared to 40% for claimants).

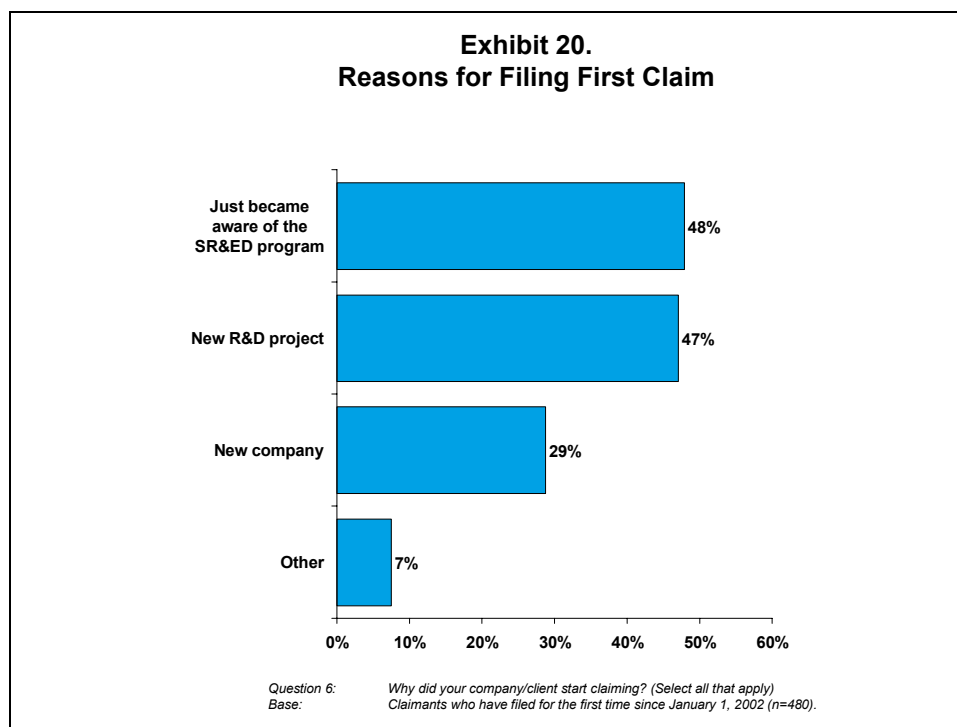
Respondents from companies with revenue over \$50 million were more likely to use both the public information and industry-specific seminars and the account executive service (57% and 55% respectively, compared to 40% and 26% for those with revenue under \$50 million). Conversely, respondents from companies with revenue under \$500,000 were more likely to use the PCPR and First-Time Claimant services (36% and 26% respectively, compared to 27% and 14% for those with revenue over \$500,000).

Among those who used each service, satisfaction was equally high for the three SR&ED services available to claimants on an individual basis (Account Executive, PCPR and First-Time Claimant services). The public information and industry-specific seminars received a slightly lower satisfaction score, with a 77% satisfaction rate (including 27% who were very satisfied).



5.4. First Claim

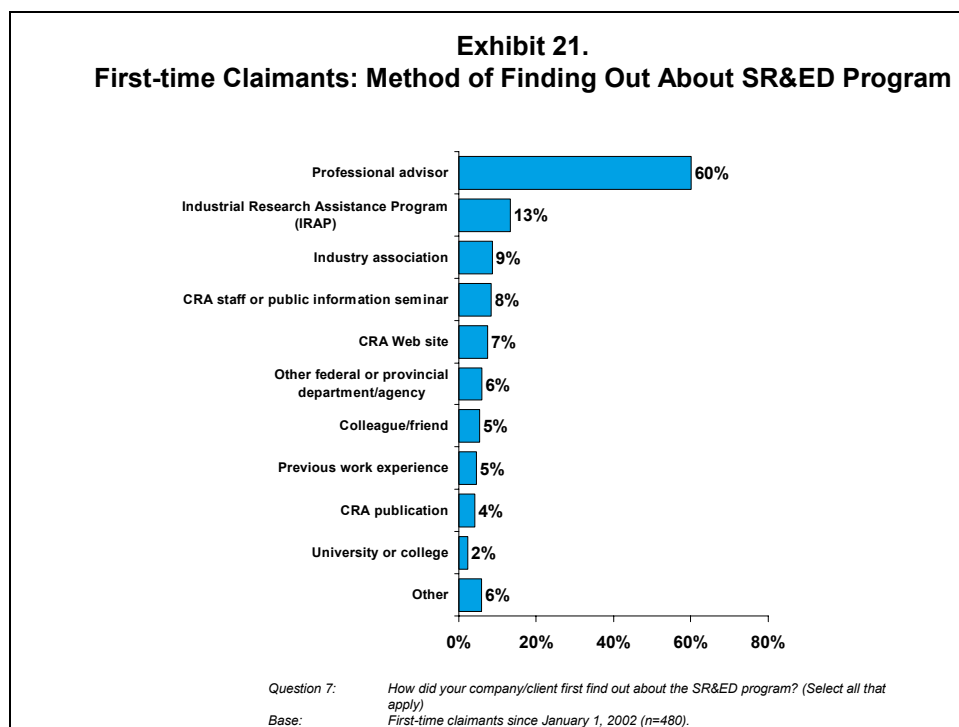
About one-third (34%) of respondents said they had claimed SR&ED tax credits for the first time since January 1, 2002. Of these companies and individuals, the most common reasons for starting to file SR&ED claims were because they just became aware of the SR&ED program or had undertaken a new project.



Respondents from companies with annual revenue over \$500,000 were more likely to indicate that they started claiming because they had just become aware of the program (54% compared to 39% for respondents from companies with annual revenue under \$500,000). Meanwhile, respondents from companies with annual revenue under \$500,000 were more likely to indicate that they started claiming because of a new R&D project or because the company had just recently been created (56% and 46%, respectively, compared to 42% and 19% for respondents from companies with annual revenue over \$500,000).

The majority of new claimants found out about the SR&ED program from a professional advisor. Other sources through which companies and individuals became aware of the SR&ED program include through the Industrial Research Assistance Program (IRAP), through an industry association, or from a CRA staff member or CRA seminar.

The high proportion of respondents that became familiar with the SR&ED program through IRAP may be in part due to CRA's partnership with the National Research Council, the organization that administers the IRAP program.

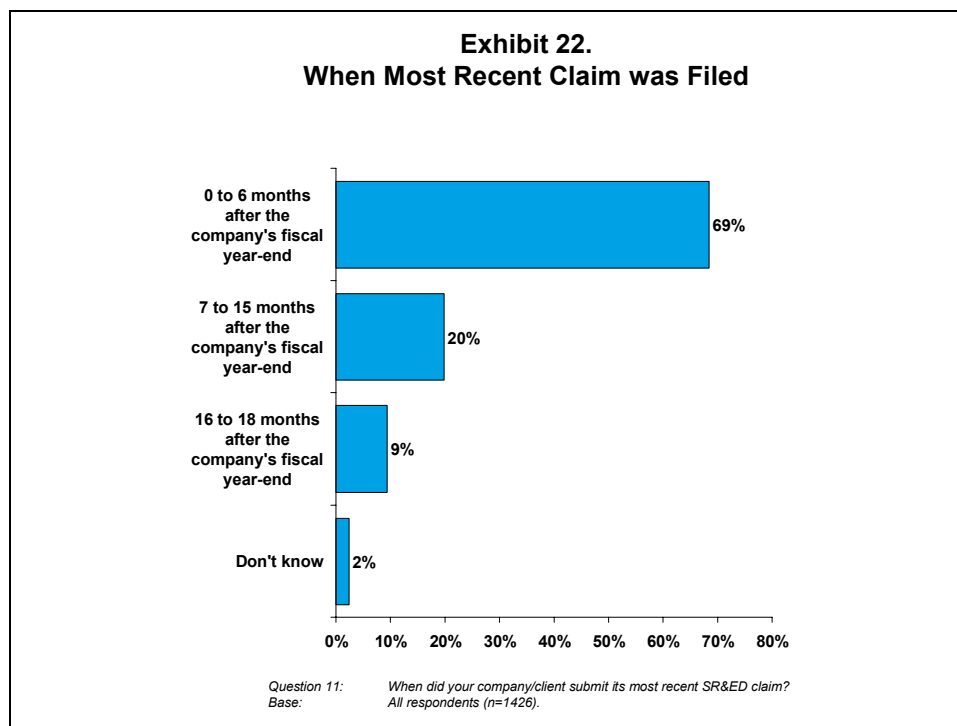


Respondents from companies with annual revenue under \$500,000 were more likely to find out about the SR&ED program from IRAP (19%), while those with annual revenue above \$500,000 were more likely to find out about the SR&ED program from a professional advisor (67%).

5.5. Claim Preparation

Timing of Claim Submission

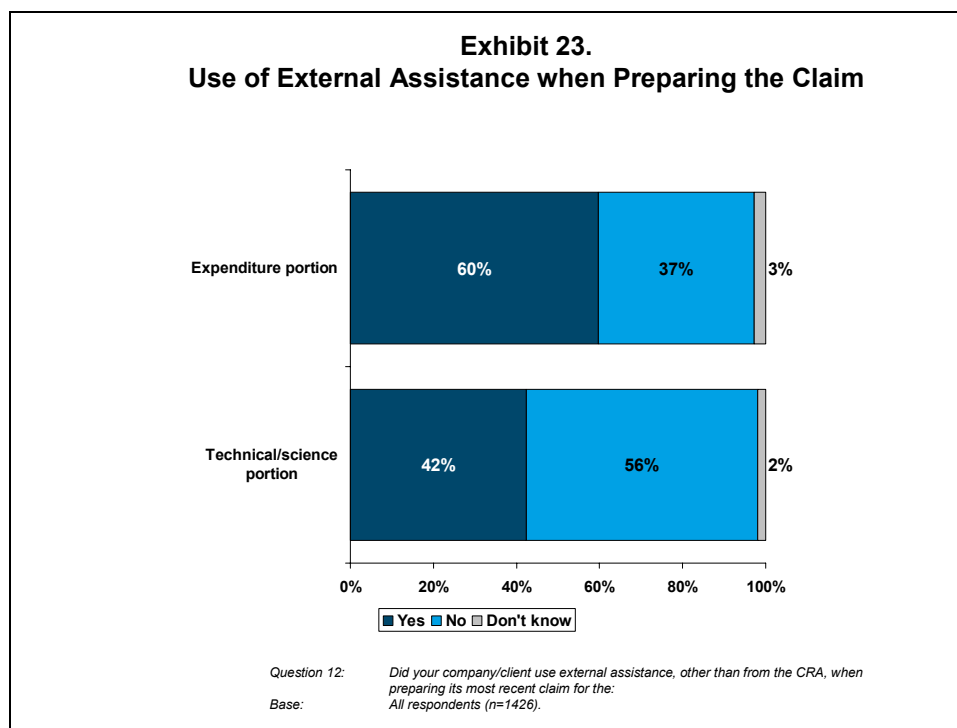
Most respondents said they filed their claim within six months of their fiscal year end. Very few (9%) indicated that they submitted their most recent claim more than 15 months after their fiscal year end.



Respondents from companies with higher revenue were significantly more likely to indicate that they filed a claim more than 15 months after the company's fiscal year-end. Just 8% of respondents from companies with annual revenue of under \$10 million said they filed more than 15 months after their fiscal year-end, while 19% of respondents from companies with revenue over \$10 million indicated they filed at this stage.

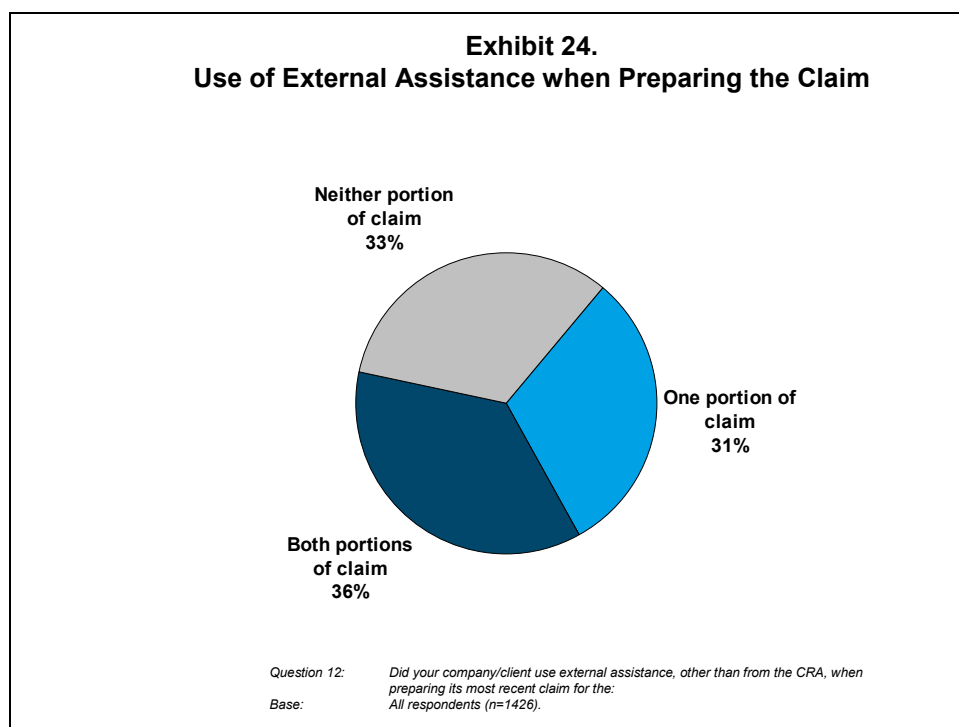
Use of External Assistance

Respondents were slightly more likely to use external assistance for the expenditure portion of the SR&ED claim rather than the technical/science portion (60% and 42%, respectively).



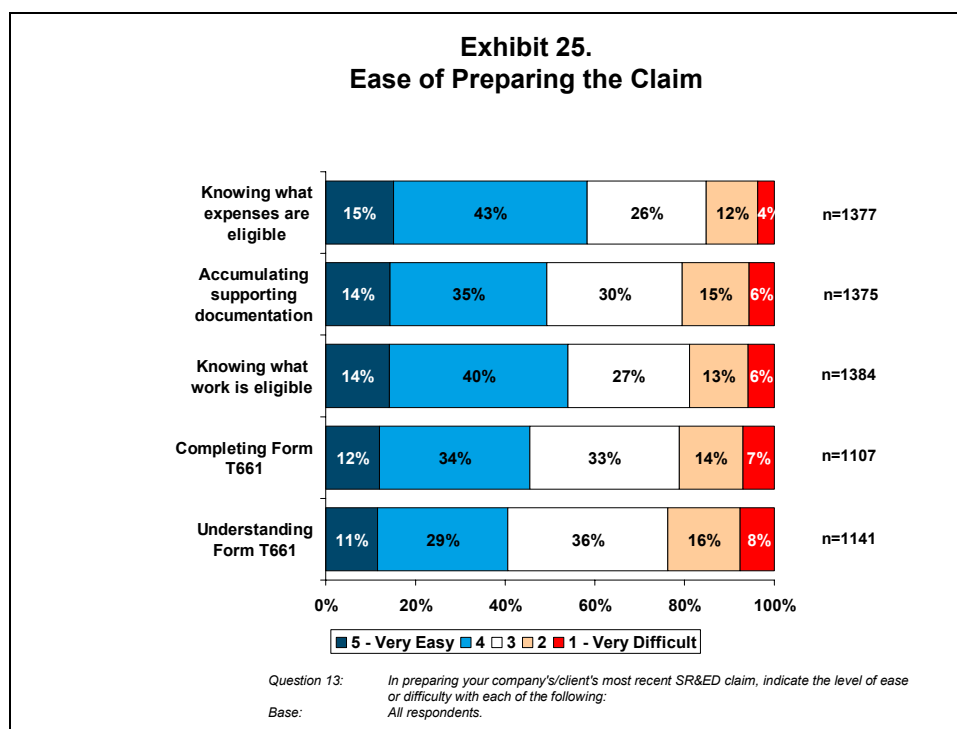
Companies with annual revenue under \$50 million (60%) were more likely to have used external assistance for the expenditure portion compared to other companies (43%). Meanwhile, companies with revenue over \$10 million (53%) were more likely to have used external assistance for the technical/science portion compared to other companies (39%).

About one-third (36%) used external assistance for both portions of the claim, while 33% did not use external assistance for either portion. The remaining third (31%) used external assistance for either the expenditure or technical/science portion of the claim.



Ease of Claim Preparation

Each of the five aspects of claim preparation received similar scores in terms of their ease. Scores ranged from a high of 58% for “knowing what expenses are eligible”, to a low of 40% for understanding Form T661. A sizable portion of respondents seemed to think that preparing the claim is neither very easy nor very difficult. For each statement, about a third of respondents provided a neutral rating. Overall, respondents seemed to indicate that understanding the process or rules for preparing the claim was easier than completing and understanding the forms themselves (or specifically, Form T661).



Respondents who are claimants indicated they were more likely than their representatives to experience difficulty understanding and completing Form T661. Just 38% of claimants said it was easy to understand the form (compared to 59% of claimants' representatives), and only 44% of claimants said it was easy to complete the form (compared to 61% of claimants' representatives).

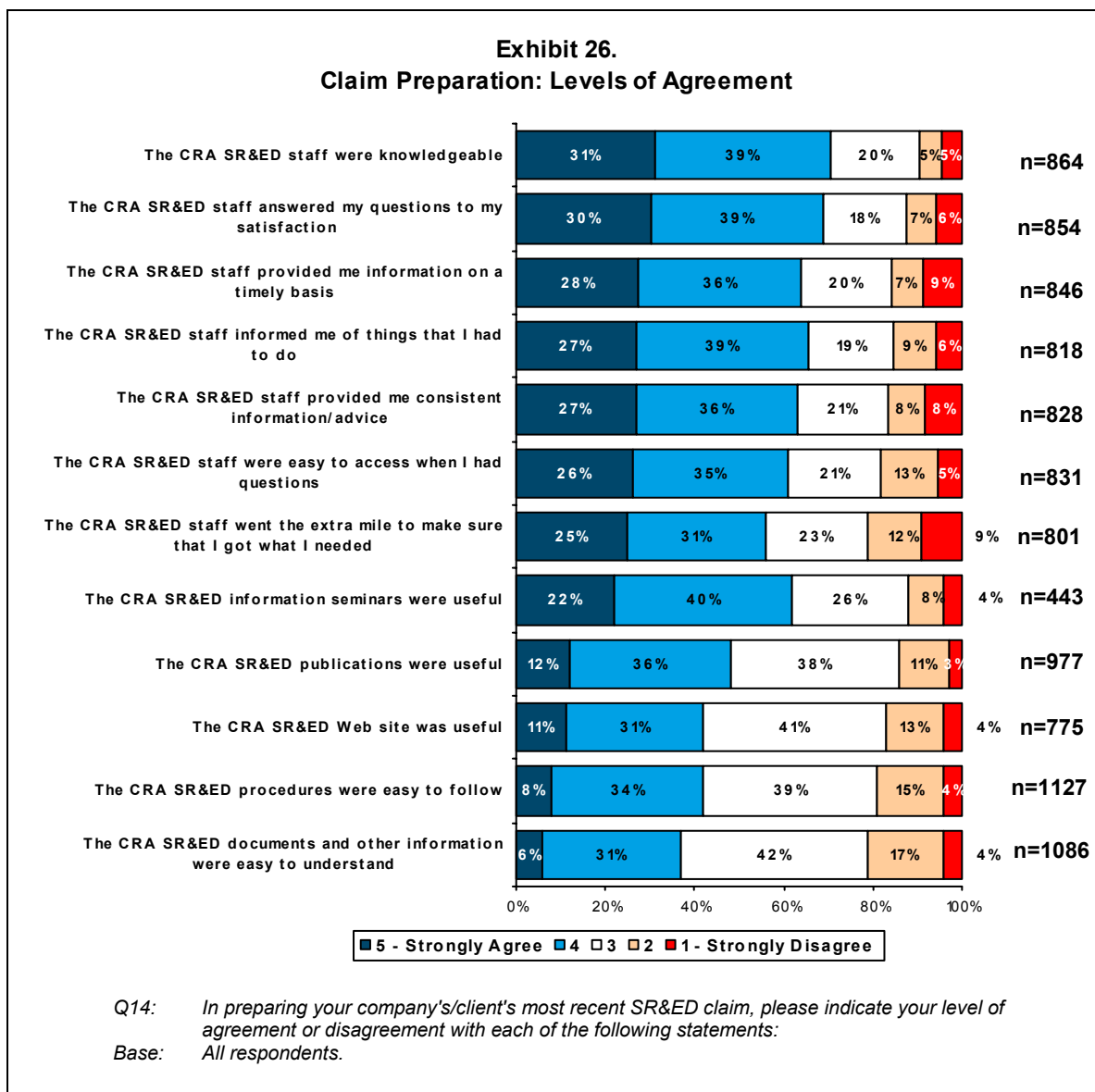
Respondents from companies with lower annual revenue also experienced greater difficulty with Form T661. Just 33% of respondents from companies with revenue under \$500,000 said it was easy to understand the form, compared to 44% of respondents from companies with revenue over \$500,000. Also, 37% of respondents from companies with revenue under \$500,000 said it was easy to complete the form, compared to 50% of respondents from other companies.

Meanwhile, respondents from companies with lower annual revenue said that they found other elements of claim preparation much easier than did respondents from other companies. For example, 57% of respondents from companies with revenue under \$10 million indicated that it was easy to know what work is eligible, while 60% of the respondents from the same companies said that it was easy to know what expenses are eligible. Fewer than half (44%) of respondents from companies with revenue over \$10 million said it was easy to know what work is eligible, while 51% of the same respondents said that it was easy to know what expenses are eligible.

Views of Claim Preparation

Survey respondents gave SR&ED staff very positive ratings in terms of their knowledge, ability to answer questions, and their ability to provide timely information. In fact, all seven statements regarding staff and claim preparation received very high ratings from survey respondents.

Meanwhile, respondents were less satisfied with the SR&ED Web site as well as publications, procedures and other documents.



Respondents with lower annual revenue were more likely to be satisfied with SR&ED staff. For example, 70% of respondents from companies with revenue under \$50 million agreed with the statement “The SR&ED staff answered my questions to my satisfaction”, while just 51% of respondents from companies with revenue over \$50 million said the same. As well, 67% of respondents from companies with revenue under \$50 million agreed with the statement “The SR&ED staff informed me of things that I had to do”, while just 52% of respondents from companies with revenue over \$50 million said the same.

Claimants and claimants’ representatives had similar levels of agreement for most of the statements concerning claim preparation. The one exception concerned SR&ED publications. Representatives found the publications more useful (60% provided a rating of four or five) than claimants (46%).

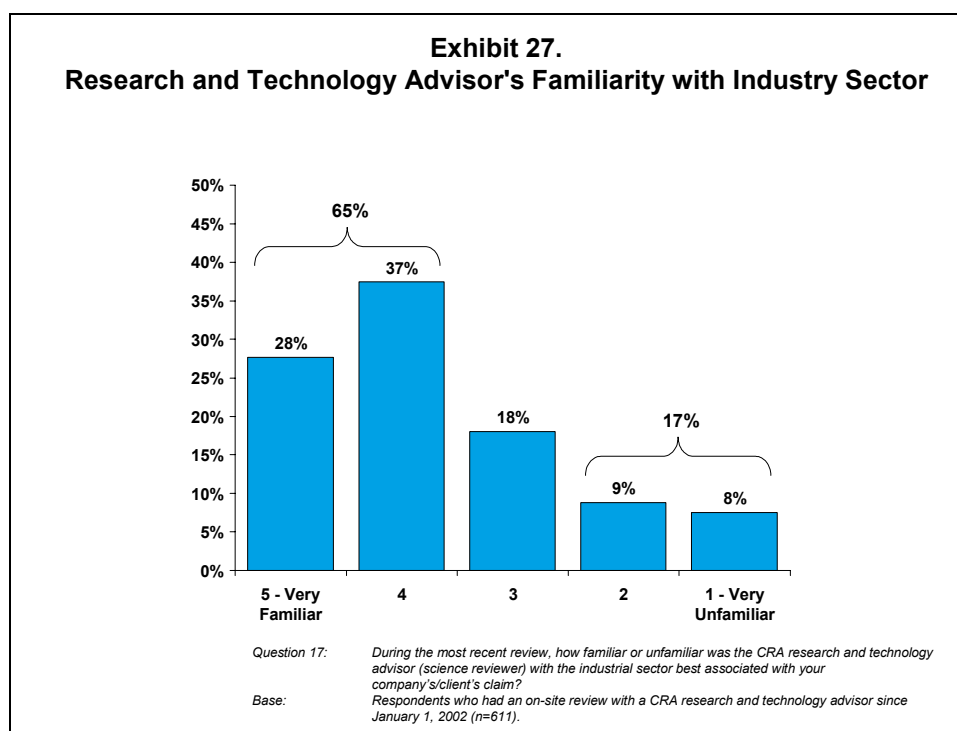
5.6. On-Site Review of Claim

About two-thirds (65%) of respondents said they had undergone an on-site review since January 1, 2002 for at least one of their claims. Respondents from companies with annual revenue over \$50 million were more likely to have had an on-site review of a claim (80%) compared to respondents from companies with lower revenue (64%).

Research and Technology Advisor

About two-thirds (66%) of survey respondents indicated that a research and technology advisor participated in the most recent on-site review. Respondents from companies with annual revenue over \$50 million are more likely to have had a research and technology advisor participate in their most recent on-site review (86%) compared to respondents from companies with lower revenue (64%). The same was true for claimants' representatives, where 77% had a research and technology advisor participate in the most recent on-site review, compared to 65% of claimants.

About two-thirds (65%) of survey respondents indicated that the research and technology advisor was familiar with their industry sector.



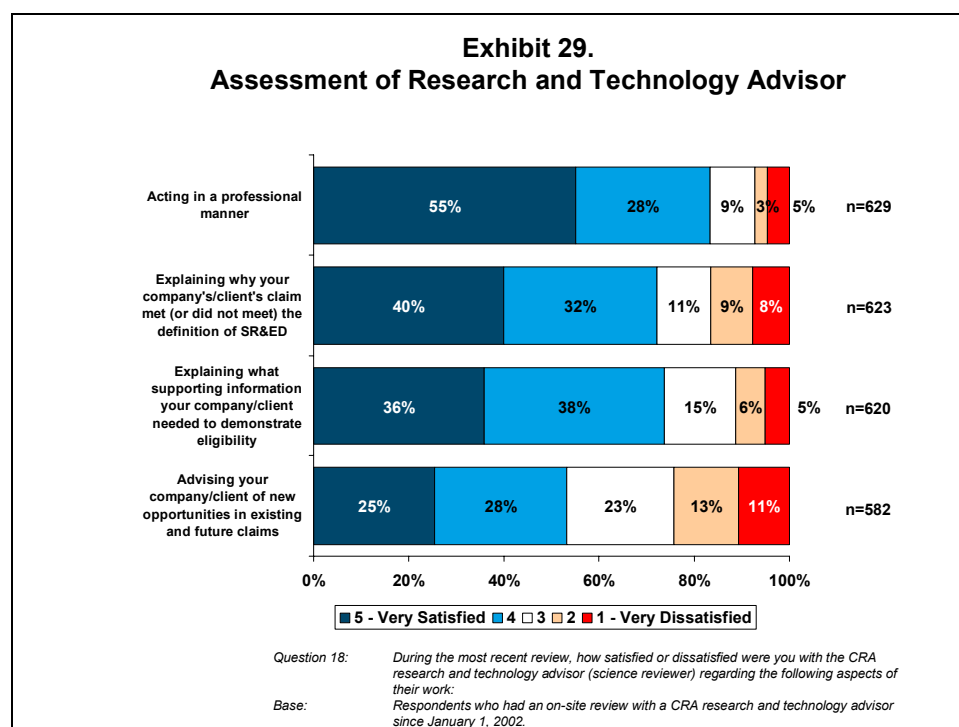
Those whose claim was associated with hardware/electronics (54%) were less likely to find the research and technology advisor to be familiar with their industry sector than those in other sectors.

| Exhibit 28. | | |
|--|------------------------------|---|
| Research and Technology Advisor's Familiarity with Industry Sector by Industry Sector¹ | | |
| | Number of respondents | % of respondents who said RTA was familiar with their sector |
| Software/IT | 203 | 69 |
| Manufacturing | 175 | 67 |
| Machinery & Equipment | 56 | 65 |
| Hardware/Electronics | 67 | 54 |

Q17: *During the most recent review, how familiar or unfamiliar was the CRA research and technology advisor (science reviewer) with the industrial sector best associated with your company's/client's claim?*

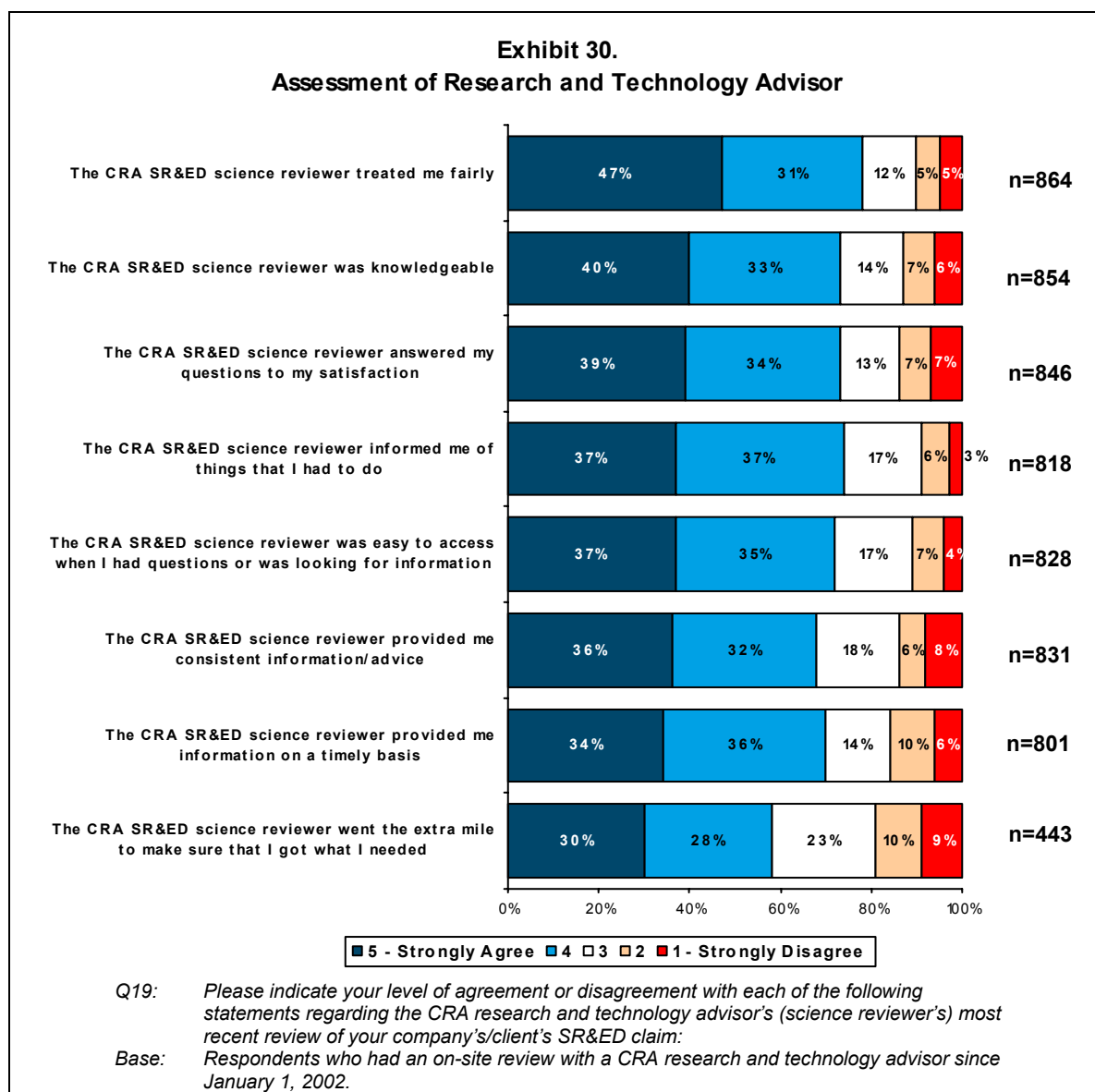
Base: *Respondents who had an on-site review with a CRA research and technology advisor since January 1, 2002.*

The vast majority (83%) of respondents were satisfied with the research and technology advisor's professionalism. Respondents were also satisfied with the extent to which the research and technology advisor provided them with explanations regarding both why the claim met (or did not meet) the requirements and what supporting information was needed. However, only about half (53%) found that the research and technology advisor advised them of new opportunities in existing and future claims.



¹ Only industry sectors with at least 50 respondents are shown

Research and technology advisors received high agreement scores for most statements. Above all, they were widely viewed as being fair, knowledgeable and helpful. Survey respondents were slightly less likely to agree that research and technology advisors went the ‘extra mile’ for them.

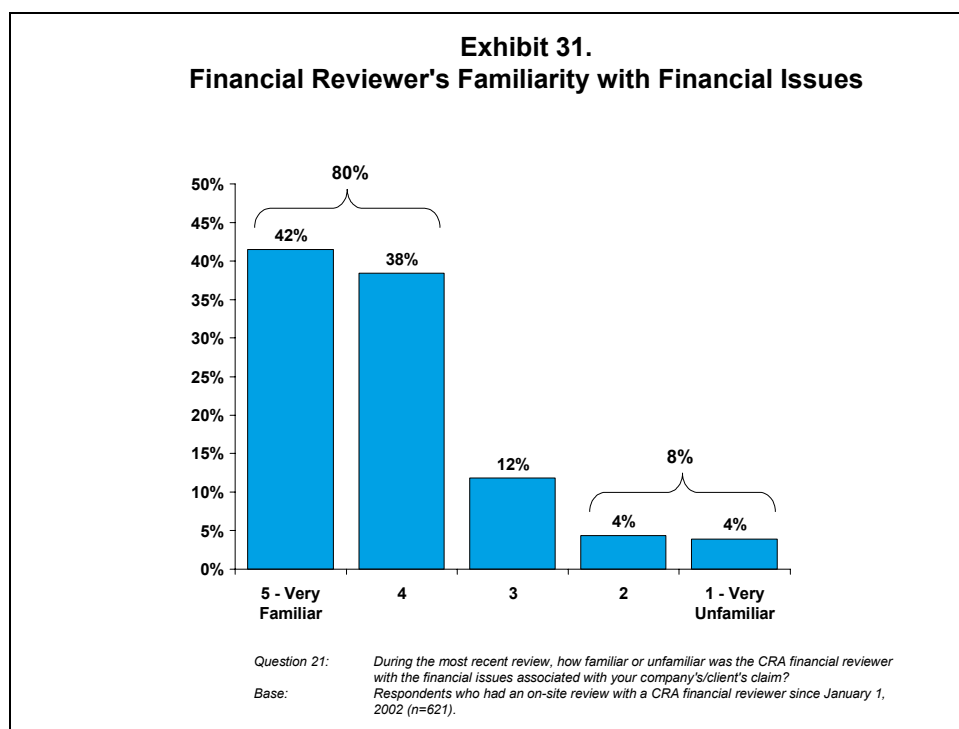


Claimants gave a much more favourable assessment of the research and technology advisors than did claimants' representatives. Specifically, over three-quarters (76%) of claimants agreed that the research and technology advisor informed them of things they had to do, whereas only 52% of claimants' representatives said the same. As well, 70% of claimants agreed that the research and technology advisor provided them consistent information or advice as compared to 49% of claimants' representatives. Also, 75% of claimants agreed that the research and technology advisor was knowledgeable as compared to only 58% of claimants' representatives.

Financial Reviewer

About two-thirds (68%) of survey respondents indicated that a financial reviewer participated in the most recent on-site review. Respondents from companies with annual revenue over \$10 million were more likely to have had a financial reviewer participate in their most recent on-site review (76%) compared to respondents from companies with lower revenue (66%).

Most survey respondents (80%) indicated that the financial reviewer was familiar with the financial issues associated with the company's claim.



Scores for the financial reviewer concerning familiarity (and for other questions) were more favourable than for the research and technology advisor.

There was no significant difference in responses between claimants and claimants' representatives. Respondents from different industry sectors also reported similar levels of familiarity with the financial reviewer's knowledge of their financial issues.

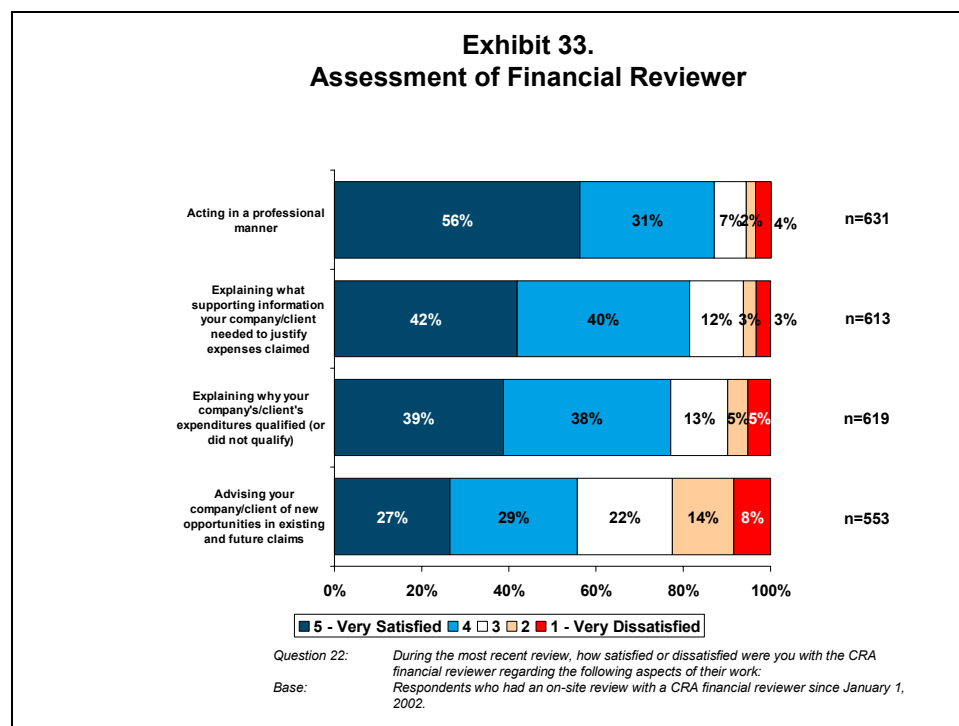
| Exhibit 32. Financial Reviewer's Familiarity with Financial Issues by Industry Sector² | | |
|--|------------------------------|--|
| | Number of respondents | % of respondents who said financial reviewer was familiar with financial issues |
| Machinery & Equipment | 52 | 86 |
| Software/IT | 194 | 82 |
| Manufacturing | 168 | 81 |
| Hardware/Electronics | 65 | 81 |

Q21: *During the most recent review, how familiar or unfamiliar was the CRA financial reviewer with the financial issues associated with your company's/client's claim?*

Base: *Respondents who had an on-site review with a CRA financial reviewer since January 1, 2002.*

Respondents from companies with revenue between \$1 and \$10 million were more likely to indicate that the financial reviewer was familiar with the financial issues associated with their claim. Fully 87% of these respondents said the financial reviewer was familiar, compared to only 76% of those with revenue below \$1 million and 75% of those with revenue above \$10 million.

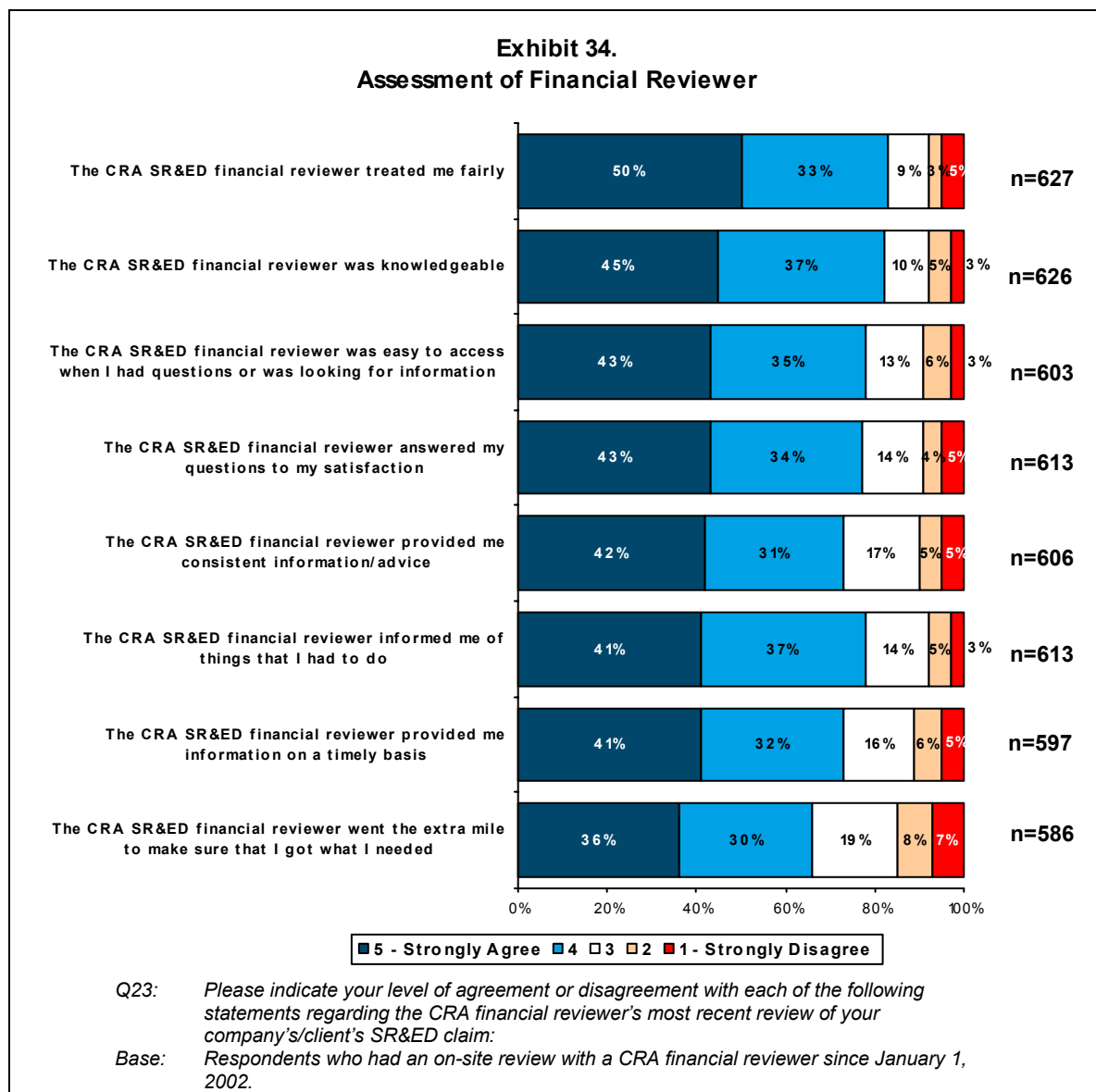
The vast majority (87%) of respondents were satisfied with the financial reviewer's professionalism. Respondents were also satisfied with the extent to which the financial reviewer provided them with explanations regarding both why their expenditures qualified (or did not qualify) and what supporting information was needed. However, only about half (56%) found that the financial reviewer advised them of new opportunities in existing and future claims. These results are very similar to those for the research and technology advisors.



² Only industry sectors with at least 50 respondents are shown

Respondents from companies with revenue over \$50 million were less likely to find that the financial reviewer had advised their company of new opportunities for future claims. Only 40% agreed with the statement, compared to 58% of respondents from companies with higher revenue.

Similar to the research and technology advisors, SR&ED financial reviewers were widely viewed as being fair, knowledgeable and helpful. Survey respondents were slightly less likely to agree that financial reviewers went the ‘extra mile’ for them (66% agreed).

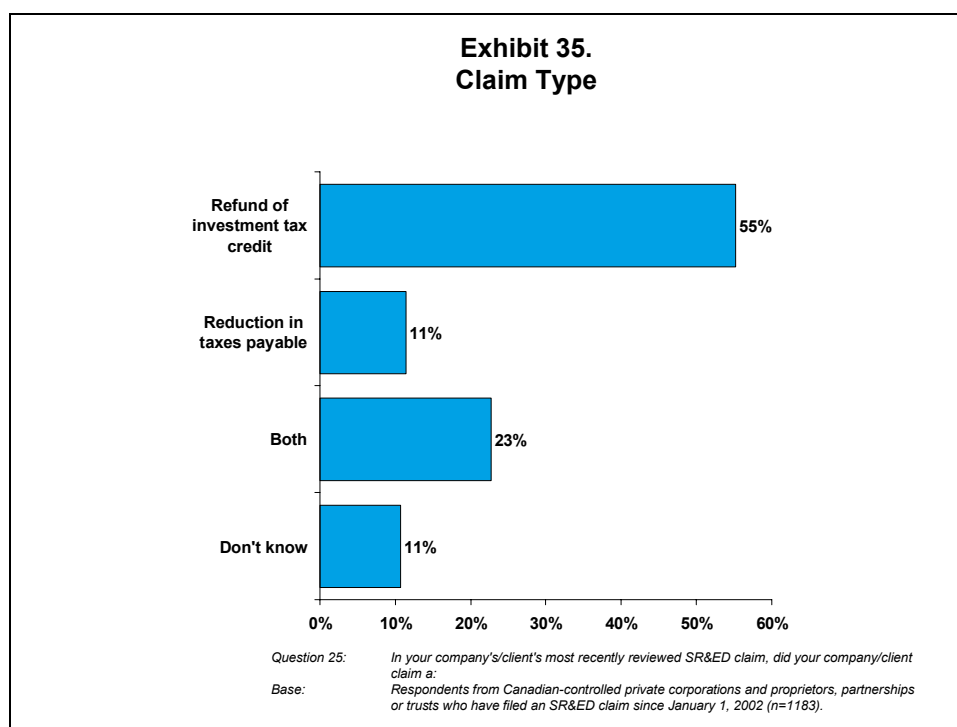


Claimants gave a much more favourable assessment of the SR&ED financial reviewers than did claimants' representatives. Specifically, 80% of claimants agreed that the financial reviewer informed them of things they had to do, whereas only 62% of claimants' representatives said the same. As well, 75% of claimants agreed that the financial reviewer provided them consistent information or advice as compared to only 58% of claimants' representatives. Also, 83% of claimants agreed that the financial reviewer was knowledgeable compared to 72% of claimants' representatives.

Respondents from companies with high annual revenue tended to give less favourable assessments of their financial reviewer. Only two-thirds (66%) of respondents from companies with revenue over \$50 million agreed that the financial reviewer answered questions to their satisfaction, whereas 79% of other respondents said the same. Also, 62% of respondents from companies with revenue over \$50 million agreed that the financial reviewer provided them with information on a timely basis as compared to 74% of other respondents.

5.7. Claim Outcome

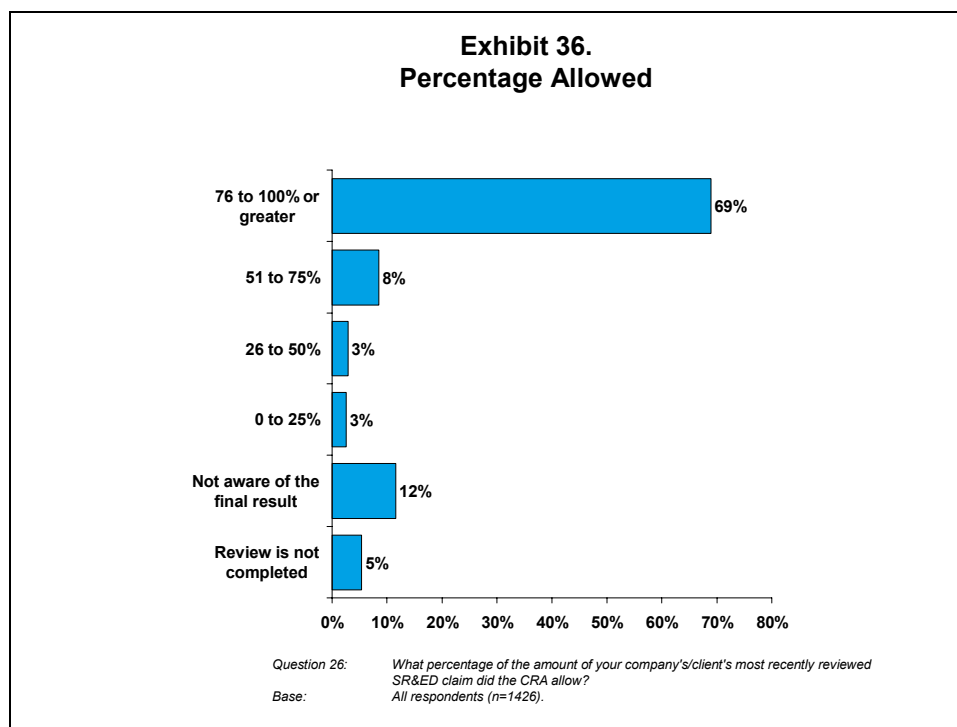
Survey respondents were much more likely to report that they claimed a refund rather than a reduction in taxes payable.



Respondents representing proprietors, partnerships or trusts were more likely to claim a reduction in taxes payable (18% compared to 10% for others), while respondents representing Canadian controlled private corporations were slightly more likely to claim both a refund and reduction of taxes (24% compared to 11% for others).

Also, respondents from companies with revenue under \$10 million were much more likely to claim a refund of investment tax credit (60% compared to 24% for respondents from companies with higher revenue). Meanwhile, respondents from companies with revenue over \$10 million were much more likely to claim a reduction in taxes payable (32% compared to 8% for respondents from companies with lower revenue).

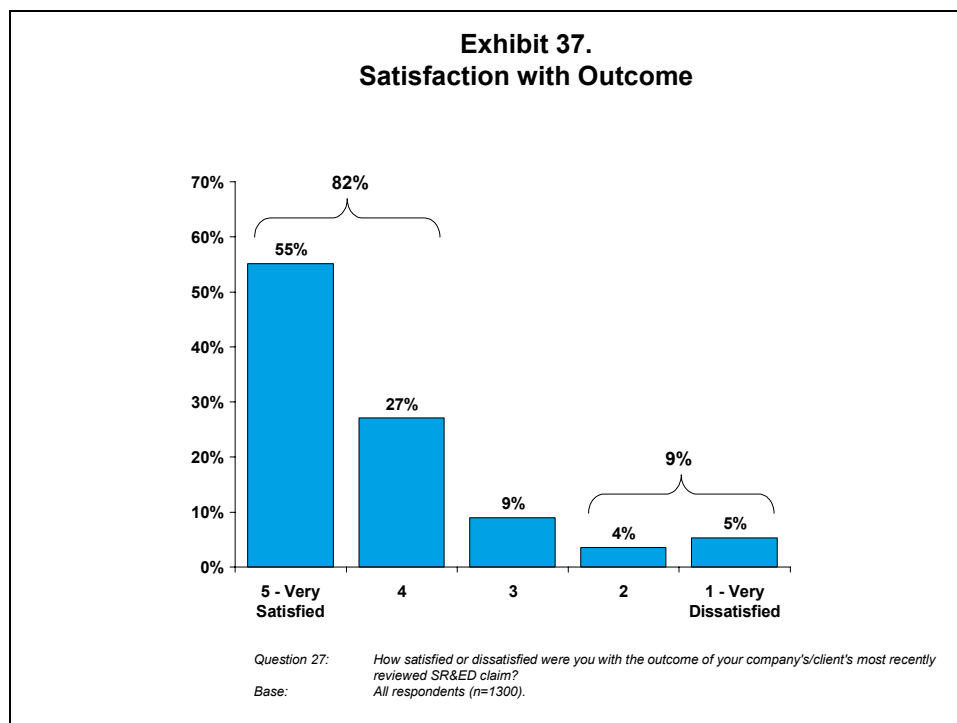
Most respondents were allowed the majority of the amount they claimed.



Claimants' representatives were more likely to say that their claimant received a greater portion of the claim. Fully 82% of claimants' representatives said the claimant received over 75% of the claim, while 68% of claimants said the same.

As well, respondents involved in just the scientific component of the SR&ED claim were less likely to say that they received over 75% of their claim (53%) compared to those involved in just the financial component (69%) or both components (72%).

The vast majority (82%) of respondents said they were satisfied with the outcome of their most recently reviewed claim.



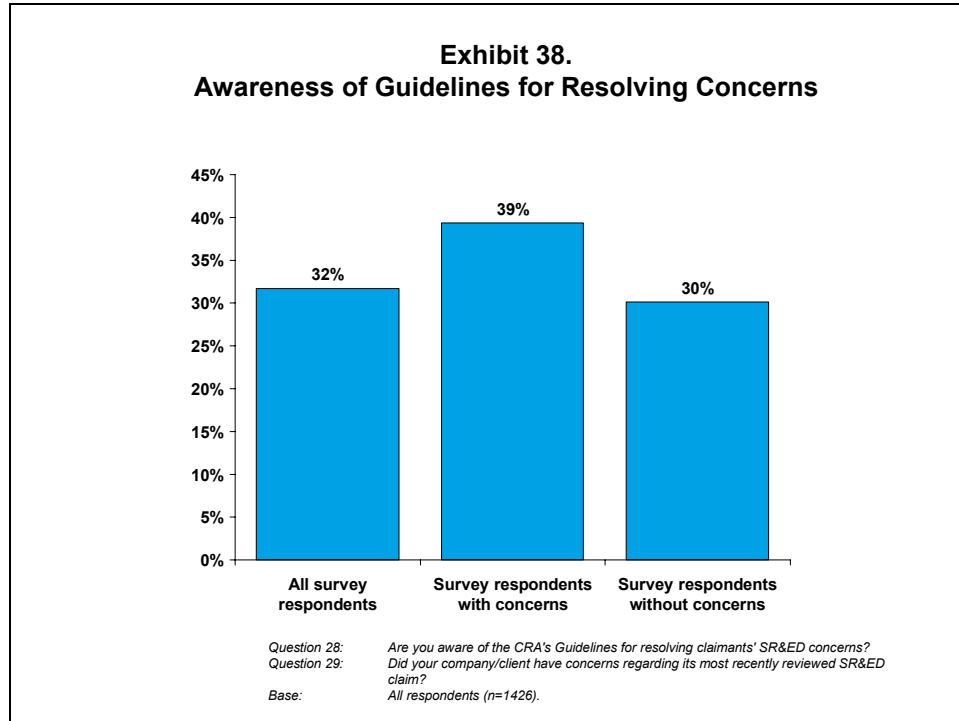
Not surprisingly, the percentage of claim allowed was strongly correlated with the overall level of satisfaction with the outcome of the most recently reviewed claim. Overall, 94% of respondents who received more than 75% of their claim said they were satisfied with the claim outcome, while only 27% of those who received 25% or less of their claim said they were satisfied.

Claimants' representatives and respondents from companies with lower revenue were more likely to be satisfied with the outcome of their claim. Fully 88% of claimants' representatives said they were satisfied with the outcome of the claimant's claim (compared to 82% of claimants), while 84% of respondents from companies with revenue under \$10 million said they were satisfied with their claim outcome as compared with 75% of respondent from other companies.

5.8. Concern Resolution

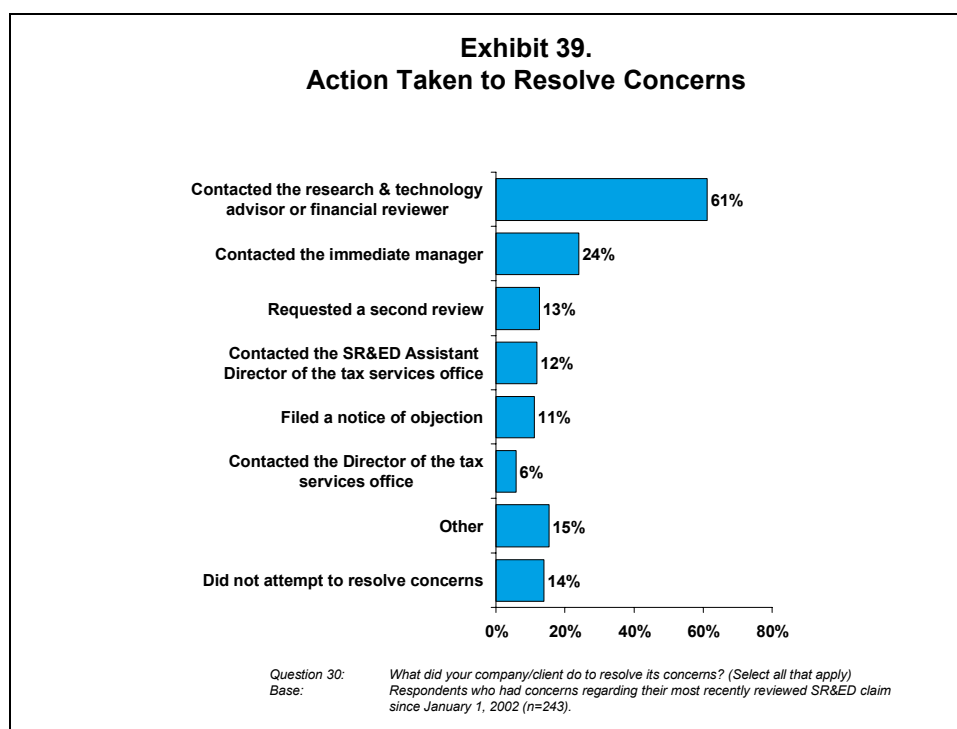
Just 17% of survey respondents said they had a concern regarding their most recently reviewed SR&ED claim. This rate was significantly higher for respondents from companies with revenue over \$50 million, where 34% said they had a concern with their most recent claim (compared to 16% for respondents from companies with revenue below \$50 million).

About one-third (32%) of respondents indicated that they were aware of the CRA's *Guidelines for resolving claimants' SR&ED concerns*. Awareness of the guidelines was much higher for claimants' representatives (51% compared to 30% for claimants themselves) and respondents from companies with revenue over \$50 million (46% compared to 31% for respondents from companies with revenue below \$50 million).



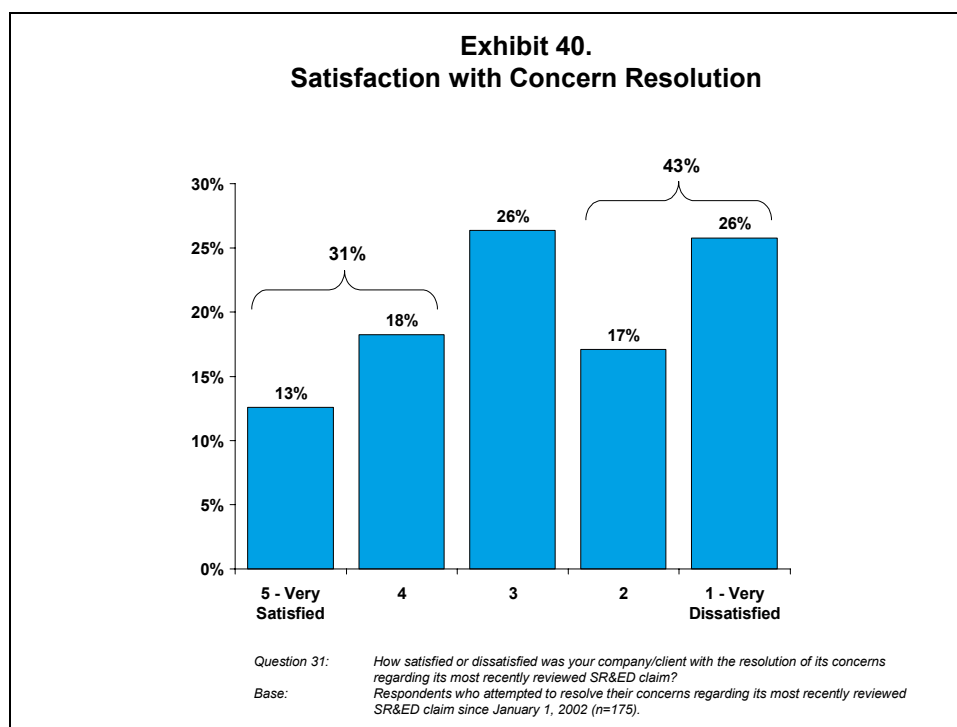
Among survey respondents who had concerns regarding their most recently reviewed claim, 39% were aware of the of the CRA's *Guidelines for resolving claimants' SR&ED concerns*. By comparison, 30% of those who did not have a concern regarding their most recently reviewed claim were aware of the guidelines.

Those that had a concern regarding their most recently reviewed SR&ED claim were most likely to contact their research and technology advisor or financial reviewer to help resolve the issue. These findings suggest that respondents were more inclined to try to resolve their concern by first contacting who they perceived to be their main point of contact. The fact that only 13% indicated that they had requested a second review may be due, at least in part, to the fact that the instructions for requesting this review are contained in the *Guidelines for resolving claimants' SR&ED concerns*, a document of which most respondents were not aware.



Claimants were more likely than their representatives to contact their research and technology advisor or financial reviewer (64% compared to 34%). Respondents from companies with revenue under \$50 million were more likely not to attempt to resolve their concern (16% compared to 3% for others). Meanwhile, respondents from companies with revenue over \$50 million were more likely to contact the immediate manager (47% compared with 21% for others) or contact the SR&ED Assistant Director of the tax services office (TSO) (29% compared to 10%).

Close to half (43%) of survey respondents were dissatisfied with the resolution of their concern regarding their most recently reviewed SR&ED claim.



Satisfaction with the resolution of concerns seems to be heavily dependent on the percentage of SR&ED claim that the CRA allowed. Almost half (47%) of those who received more than 75% of their claim said they were satisfied with the resolution of their concerns, while just 10% of those who received 75% or less of their claim said the same.

Those who were satisfied with the resolution of their concern tended to be satisfied because they received a favourable outcome, had a good customer service experience, or were satisfied with their research and technology advisor.

Exhibit 41.
Reasons for Satisfaction with Concern Resolution

| | Number of respondents |
|--|-----------------------|
| Favourable outcome | 6 |
| Good customer service | 4 |
| Satisfied with research and technology advisor | 4 |
| Satisfied with financial reviewer | 2 |
| Quick process | 1 |

Q32: Please explain:

Base: Respondents who were satisfied (4-5 out of 5) with the concern resolution regarding their most recently reviewed SR&ED claim since January 1, 2002 (n=25).

Those who were dissatisfied with the resolution of their concern tended to be dissatisfied because the process took too long, their concerns were unresolved or still taking place when they completed the survey, or there was too much bureaucracy or red tape.

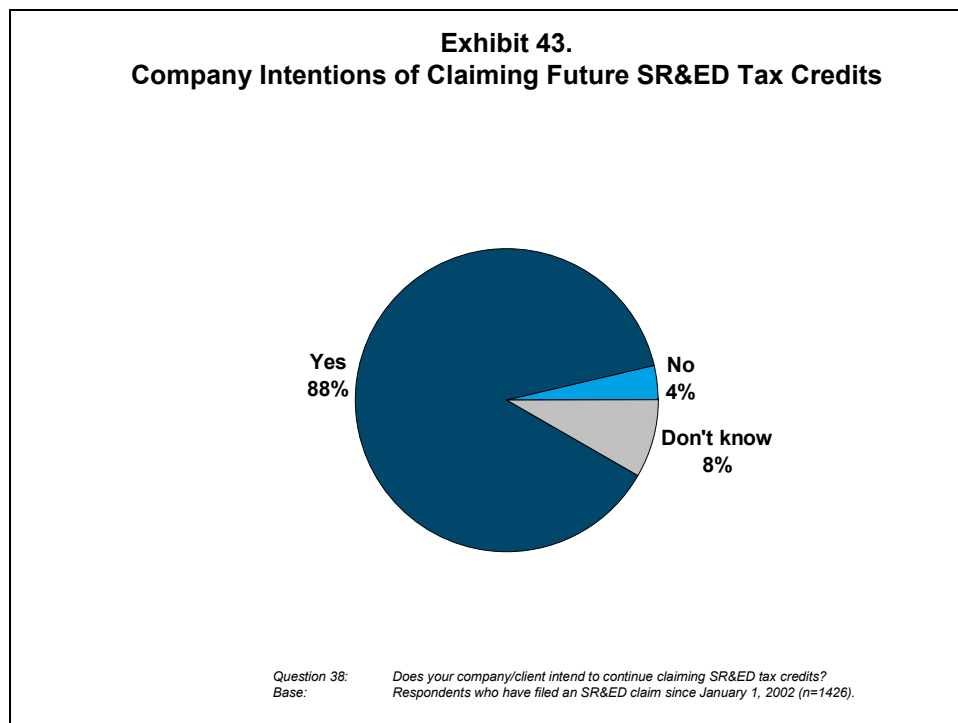
| Exhibit 42. Reasons for Dissatisfaction with Concern Resolution | |
|--|------------------------------|
| | Number of respondents |
| Lengthy process | 10 |
| Unresolved/still taking place | 9 |
| Bureaucracy/red tape | 9 |
| Unfair treatment | 8 |
| Dissatisfied with research and technology advisor | 6 |
| Unfavourable outcome | 4 |
| Poor customer service | 4 |
| Dissatisfied with financial reviewer | 4 |
| Inconsistent communications/guidelines/claims processing | 3 |
| Poor communication | 3 |
| Not worth the money | 3 |

Q32: Please explain:

Base: Respondents who were dissatisfied (1-2 out of 5) with the concern resolution regarding their most recently reviewed SR&ED claim since January 1, 2002 (n=51).

5.9. Company Intentions Regarding Claiming Future SR&ED Tax Credits

Most survey respondents (88%) indicated that they plan to make future SR&ED tax credit claims. In fact, only 4% of respondents said they would not continue claiming, while another 8% said they didn't know.



Respondents from companies with revenue over \$500,000 were more likely to indicate that they plan to continue claiming SR&ED tax credits (92% intend to continue claiming SR&ED tax credits) as compared to respondents from companies with revenue under \$500,000 (82% intend to continue claiming SR&ED tax credits).

Of the 4% of respondents who indicated that they plan to discontinue claiming SR&ED tax credits (representing a total of 53 survey respondents), they tended to report that this was because the claimant was no longer doing R&D, the process was too time-consuming, the cost of claiming exceeded the benefits received, the process was too complicated, they had cutbacks in R&D spending, or they were moving their R&D operations outside of Canada.

| Exhibit 44. Reasons for Discontinuing Claiming SR&ED Tax Credits | |
|---|------------------------------|
| | Number of respondents |
| Company no longer doing R&D | 21 |
| Process too time-consuming | 21 |
| Cost of claiming exceeds benefits | 17 |
| Process too complicated | 15 |
| Company cutbacks in R&D spending | 4 |
| R&D operations moving outside of Canada | 4 |
| Other | 11 |

Q39: Why does your company intend to discontinue claiming SR&ED tax credits? (Select all that apply)

Base: Respondents who do not intend to continue claiming SR&ED tax credits (n=53).

6.0 Summary of Key Findings

The key findings from the study are as follows:

Overall Satisfaction with SR&ED Program

Overall, most survey respondents (71%) said they were satisfied with the CRA's administration of the SR&ED program. Survey respondents who were satisfied with the CRA's administration of the SR&ED program tended to say they received good customer service, the program supported their business and allowed them to grow, or the program had clear guidelines. Survey respondents who were dissatisfied with the CRA's administration of the SR&ED program indicated that the process was too lengthy, the process was unreasonable, or the program guidelines were confusing or unclear.

The percentage of the claim that was allowed was strongly correlated with survey respondents' overall satisfaction with the CRA's administration of the SR&ED program. As well, respondents from companies with lower revenue were more satisfied with the CRA's administration of the SR&ED program than those from companies with higher revenue.

Most respondents agreed that the CRA had processed their claims consistently from year-to-year (79%) and were satisfied the length of time it took for the CRA to process their claim (60%). Respondents from companies with lower revenue were more likely to agree that their claim was processed consistency from year-to-year and were more satisfied with the length of time it took for the CRA to process their claim than those from companies with higher revenue.

Outcomes of SR&ED Program

Fully 80% of respondents said that the SR&ED program allows them to keep existing research and development work in Canada, while about the same percentage said that the program allows them to undertake new R&D projects. About 70% of respondents said that the SR&ED program allows them to either retain or hire new employees.

Respondents said the SR&ED program is effective at encouraging companies to both stay in Canada (73%) and conduct more SR&ED work in Canada (82%). Respondents also said the SR&ED program has a positive effect on their companies' cash flow and profitability.

SR&ED Services

While 61% were aware of the public information and industry-specific seminars, only about half of all respondents knew about the Preclaim Project Review (PCPR) service and First-Time Claimant service, and only 32% knew about the Account Executive service.

Use of the SR&ED program's four services was not high. Among those who were aware of each service, use ranged from 41% for the information seminars to a low of 18% for First-Time Claimant service.

Among those who used each service, respondents were satisfied with the three SR&ED services available to claimants on an individual basis: Account Executive (85%), PCPR (80%), and First-Time Claimant (84%). The public information and industry-specific seminars received a slightly lower satisfaction score, with 77% of those who used the service indicating they were satisfied.

First Claim

About one-third (34%) of respondents said they had claimed SR&ED tax credits for the first time since January 1, 2002. Of these companies and individuals, the most common reasons for starting to file SR&ED claims were because they just became aware of the SR&ED program or had undertaken a new project. The majority (60%) of new claimants found out about the SR&ED program from a professional advisor and secondly (13%) through the Industrial Research Assistance Program (IRAP).

Claim Preparation

Most respondents said they filed their claim within six months of their fiscal year end.

About one-third (36%) used external assistance for both the expenditure and technical/science portion of the claim, while 33% did not use external assistance for either portion. The remaining third (31%) used external assistance for just one portion.

Respondents seemed to indicate that understanding the process or rules for preparing the claim was easier than completing and understanding the forms themselves. Scores for ease of claim preparation ranged from a high of 58% for “knowing what expenses are eligible” to a low of 40% for understanding Form T661.

Survey respondents were satisfied with SR&ED staff in terms of their knowledge (70% agreed), ability to answer questions (69%), and their ability to provide timely information (64%). Meanwhile, respondents were less satisfied with the SR&ED Web site (42%) as well as publications (48%), procedures (42%), and other documents (37%).

On-Site Review of Claim

About two-thirds of respondents (65%) said they had undergone an on-site review since January 1, 2002 for at least one of their claims.

About two-thirds (66%) of these respondents indicated that a research and technology advisor participated in the most recent on-site review.

About two-thirds (65%) of survey respondents indicated that the research and technology advisor was familiar with the industry sector associated with the company’s claim. Research and technology advisors were widely viewed as being professional (83% satisfied), fair (78% agreed), and knowledgeable (73% agreed). Survey respondents were slightly less likely to agree that research and technology advisors went the ‘extra mile’ for them (58% agreed).

About two-thirds (68%) of survey respondents indicated that a financial reviewer participated in the most recent on-site review.

Most survey respondents (80%) were very satisfied with the financial reviewer's familiarity with their financial issues. Financial reviewers were widely viewed as being professional (87% satisfied), fair (83% agreed) and knowledgeable (82% agreed). Survey respondents were slightly less likely to agree that financial reviewers went the 'extra mile' for them (66% agreed).

Satisfaction scores were generally more favourable for the financial reviewer than for the research and technology advisor.

Claim Outcome

Most respondents reported that they were allowed the majority of the amount they claimed. In fact, 69% of survey respondents indicated that the CRA allowed more than three-quarters of their most recently reviewed claim. The vast majority (82%) of respondents said they were satisfied with the outcome of their most recently reviewed claim.

Not surprisingly, the percentage of claim allowed was strongly correlated with the overall level of satisfaction with the outcome of the most recently reviewed claim. Overall, 94% of respondents who received more than 75% of their claim said they were satisfied with the claim outcome, while only 27% of those who received 25% or less of their claim said they were satisfied.

Concern Resolution

Just 17% of survey respondents said they had a concern regarding their most recently reviewed SR&ED claim. To help resolve their concerns, most respondents (61%) contacted their research and technology advisor or financial reviewer.

Close to half (43%) of survey respondents were dissatisfied with the resolution of their concern regarding their most recently reviewed SR&ED claim. Those who were dissatisfied with the resolution of their concern tended to be dissatisfied because the process took too long, their concerns were unresolved or still taking place when they completed the survey, or there was too much bureaucracy or red tape.

Company Intentions Regarding Claiming Future SR&ED Tax Credits

Most survey respondents (88%) indicated that they plan to make future SR&ED tax credit claims. In fact, only 4% of respondents said they would not continue claiming, while another 8% said they didn't know. Of the 4% of respondents who indicated that they plan to discontinue claiming SR&ED tax credits (representing a total of 53 survey respondents), they tended to report that this was because the claimant was no longer doing R&D, the process was too time-consuming, the cost of claiming exceeded the benefits received, the process was too complicated, they had cutbacks in R&D spending, or they were moving their R&D operations outside of Canada.