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Guide to Form T661

# **Scientific Research and Experimental Development (SR&ED) Expenditures Claim**

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Photos: National Research Council Canada

In this guide, we use plain language to explain the most common tax situations. If you need additional information we provide references to the *Income Tax Act*, *Income Tax Regulation*, interpretation bulletins, information circulars and application policies at the bottom of each topic.

La version française de cette publication est intitulée *Guide pour le formulaire T661, Demande pour les dépenses de recherche scientifique et développement expérimental (RS&DE)*.

## What's new?

In November 2008 the Canada Revenue Agency (CRA) released a simplified T661 claim form and guide for claiming Scientific Research and Experimental Development (SR&ED). Subsequent to the release the CRA undertook several consultative processes with SR&ED claimants and other external stakeholders. This revision of the guide reflects changes based on the feedback received from these consultations.

### Changes to Form T661

Partnership identification number (PIN) has been removed from Part 1. Partnerships are to use the new 15 character business number (BN) issued by the CRA.

Line 222 "by analysis only" has been removed.

Wording on lines 235, 236 and 240 (French only), and heading for lines 260 and 261 has been revised for clarity and to conform to the wording in the legislation.

Social insurance number (SIN) has been removed from line 269.

Calculation for line 605 has been revised.

This version of Form T661 (revision code 1001) is effective as of the date of its publication. We encourage you to start using the new form immediately.

For your reference, an example of a fully completed Form T661 is available on the SR&ED Web site at [www.cra.gc.ca/sred](http://www.cra.gc.ca/sred).

For tax years ending after December 31, 2008, we will only accept T661(08) or T661(10) versions of the form.

### Changes to the Guide to Form T661

Descriptions on Filing Requirements have been revised to reflect new filing procedures.

Descriptions for Lines 204, 206, 230, and 232, 240 to 244 have been revised for clarity.

The example for calculating overall cap on Prescribed Proxy Amount (PPA) has been expanded for better clarity.

Seven new fields for science and technology codes have been added to Appendix 1 to include software technology, reliability analysis and non-destructive testing, automotive and transportation engineering, tooling machinery and equipment, heating ventilation and air conditioning, construction materials, other engineering and technologies, and oncology.

Wording in Appendix 2 has been revised to provide clear guidance to account for the business environment and first-time claimants.

Definitions for Technology base or level and Technological obstacles/uncertainties in the glossary have been revised for clarity.

### Legislative changes

Legislative changes are posted on the SR&ED Web site under "What's new".

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## Before you start

This guide contains information and instructions on how to complete Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim*. To ensure that your SR&ED expenditures are calculated correctly, it is important that you carefully review the information in the guide.

Throughout this guide, words in **bold** and *italics* are defined in the Glossary.

There have been no changes to the SR&ED program's policies or their application as a result of this revised Guide. The SR&ED legislation and the program's application policies and other technical publications, which are referenced in the Guide, remain in force. This means that the program's eligibility and expenditure requirements remain the same. The technical publications have precedence over the guide. The Guide is meant as an aid to completing the form.

### Internet access

You can find SR&ED program information, application policies, publications, Form T661 with links to the online guide, and other useful information on our Web site at [www.cra.gc.ca/sred](http://www.cra.gc.ca/sred).

### Advisory services & tools

We provide a number of free advisory services to increase the awareness of the program requirements and to assist SR&ED claimants in their claim submissions.

1. **First-time claimant service** – provides information and assistance to claimants who are new to the program.
2. **Public information seminars** – provides information and assistance to claimants in filing their claim. These seminars are held regularly at locations across Canada.
3. **Pre-Claim Project Review (PCPR) service** – provides claimants with a preliminary opinion on the eligibility of their projects for SR&ED tax incentives before they file a claim. It is important to note that the final eligibility determination can only be made after the SR&ED claim has been filed with the CRA.
4. **Account executive service** – provides claimants with a designated contact person in the SR&ED program. The account executive will assist claimants and, through ongoing contact, help them gain a better understanding of the program.
5. **Web-based Eligibility Self-Assessment Tool (ESAT)** – to help claimants determine if the research and development work they performed has a probability of meeting the SR&ED requirements. It contains clear and concise questions that address the SR&ED eligibility requirements.

The ESAT is mainly intended for claimants in the small and medium enterprise sector and for those who are new to the program and need assistance in gaining a basic understanding of the program.

You are encouraged to use these services, which are available through the CRA tax services offices across the country. For more information visit our Web site at [www.cra.gc.ca/sred](http://www.cra.gc.ca/sred).

### The SR&ED program provides the following two incentives:

1. You can deduct the current and capital SR&ED expenditures to reduce your income for tax purposes in the current year or carry these expenditures forward to reduce your income for tax purposes in future years.
2. You can receive investment tax credits (ITCs) on qualified expenditures in the form of a cash refund, a reduction of taxes payable, or both. Unused ITCs may be carried back three years or carried forward 20 years if they were earned in tax years ending after 1997 (carried forward ten years if they were earned in tax years ending before 1998).

### Filing requirements

To access both of the incentives for your SR&ED work, you must complete and submit the following forms containing the *prescribed information* in respect of an expenditure by your **reporting deadline**:

- (1) Form T661; and
- (2) Schedule T2 SCH 31 for corporations, or Form T2038(IND) for individuals, as applicable.

The above forms and schedule should be filed with your income tax return for the year.

A claimant's **reporting deadline** is the day that is 12 months after the filing due date of the income tax return for the year. This means that corporations have 18 months, and individuals have 17.5 months, from the end of the tax year in which the expenditures were incurred to file an SR&ED claim. A corporation exempt from tax that incurs SR&ED expenditures has to file Form T661 on or before the due date for filing its return of income for the year or it will be subject to a penalty. The filing due date is six months after the end of the corporation's tax year.

If you do not report an expenditure on Form T661 by the reporting deadline, you will not be entitled to receive the SR&ED incentives for that expenditure.

You can use CRA's pre-printed forms and schedules to file your SR&ED claim, or if you use approved commercial software to prepare your income tax return, you can submit the barcode sheet that contains all the *prescribed information* or submit your claim electronically, with the income tax return, if you use commercial software approved after October 2009.

*References:* *Income Tax Act* subsection 37(11), paragraphs 127(9)(m) and 149(1)(j); Interpretation Bulletin IT-151R5; SR&ED Application Policy 2004-02R4

## To expedite the processing of your SR&ED claim

- Complete Form T661 and Schedule T2 SCH 31 or Form T2038(IND), as applicable, containing all the *prescribed information*. Ensure all items listed in the Part 7 “Claim checklist” of Form T661 have been completed by the reporting deadline. Filing a form or schedule with missing information, or using a previous version of Form T661 to file a current-year claim, may delay the processing of your claim, and some or all of your expenditures may be denied if the relevant *prescribed information* is not included on the Form by the reporting deadline.
- Check mark the appropriate box on your income tax return requesting a direct deposit of your refundable ITC, if applicable.
- Place the completed Form T661 on top of your income tax return for quick identification.
- File your SR&ED claim by the reporting deadline at the appropriate tax centre. A listing of the CRA’s tax centres is provided in the T1 and T2 guides and on the CRA Web site at [www.cra.gc.ca](http://www.cra.gc.ca).
- Respond in a timely manner if we contact you for more information.

## SR&ED Co-ordinating Tax Services Offices

If you need information about your claim or our program you can contact any of our offices. A list of the SR&ED co-ordinating tax services offices is included at the end of the guide.

## Classified Projects

If a federal agency has designated any of your projects as “classified information” for national security reasons, follow these instructions:

- Complete Form T661 but use a separate sheet for project information requested in Part 2, Section B and Section C.
- Send a letter to the following address:  
  
The Technical Guidance Division  
SR&ED Directorate  
Canada Building  
344 Slater Street, 16th floor  
Ottawa ON K1A 0L5
- In your letter, explain that certain project information, which is classified, is available on request.
- Include a copy of the letter with your income tax return, along with Form T661. Do not include the Part 2, Section B and Section C information for the classified projects with your claim, but ensure it is kept on file.

## Provincial and territorial tax incentives

Provincial and territorial incentives may also be available for your SR&ED expenditures. At the time the guide was published, the following provinces and territory offered a tax credit program for R&D:

Alberta	Nova Scotia
British Columbia	Ontario
Manitoba	Quebec
New Brunswick	Saskatchewan
Newfoundland and Labrador	Yukon

Contact your provincial or territorial tax authority to determine whether such incentives are available. You can find the telephone numbers in the government section of your telephone book. We also provide a link to the Web site at [www.cra.gc.ca/sred](http://www.cra.gc.ca/sred) under *R&D links*.

## How to complete Form T661 – Line-by-line explanations

The following section explains how to complete each line on Form T661. We recommend that you read the explanations as you fill in the form. Round all amounts to the nearest dollar.

### Part 1 – General information

Complete this part for the business making the claim.

#### Line 010 – Name of claimant

Enter the registered business name. If the claim is filed for a partnership, enter the name of the partnership. Refer to the Partnerships section of this guide.

#### Tax year

Enter the dates of the beginning and end of the tax year for which you are submitting the claim.

#### Business identification

Enter the identification number that pertains to your business. If you are a partnership and have a business number (BN) enter the business number. Make sure that you enter all fifteen characters of the BN.

#### Line 050 – Number of projects

Enter the total number of projects you are claiming for this tax year.

#### Lines 100 to 125 – Contact persons

**Lines 100 to 110** – Provide the name, telephone number, and fax number of the person best suited to provide the supporting financial information for this claim.

**Lines 115 to 125** – Provide the name, telephone number, and fax number of the person best suited to provide the supporting technical information for the project information part of this claim.

## Lines 151 to 157 – Partnership information

Refer to the “Partnerships” section of this guide.

## Part 2 – Project information

You must complete this part for each project.

### Purpose

In this part of Form T661 you are asked to provide, on a project-by-project basis, information that establishes the nature of your *scientific research* and *experimental development* claim. This information enables the CRA to carry out an *initial review* of the work that you are claiming. This *initial review* helps to establish, with reasonable confidence, that the claimed work meets the SR&ED eligibility requirements. Establishing this confidence may allow the CRA to expedite the review and process the claim in a timely manner.

We recommend that personnel who are familiar with the scientific or technical content of the work you are claiming prepare this part of Form T661.

### SR&ED Project definition

The SR&ED project descriptions are required on a project-by-project basis. As a result, you should be aware of the meaning of a “project” in the context of SR&ED. An “SR&ED project” must fall within the definition of SR&ED contained in the *Income Tax Act* (ITA). Such a project comprises a set of interrelated activities that collectively are necessary for the attempt to achieve the specific scientific or *technological advancement* defined for the project and are pursued through a *systematic investigation or search* by means of experiment or analysis in a field of science or technology performed by *qualified individuals*.

When you frame your descriptions of the claimed work, we recommend that you follow the above-mentioned SR&ED project definition. The CRA generally determines the eligibility of any project at the highest possible level to properly recognize all the work required for the attempted scientific or *technological advancement*, including eligible support work.

**References:** *Income Tax Act* subsection 248(1); Information Circulars IC86-4R3 and IC97-1

### Advantages of providing clear and concise information

You must carefully consider your answers to the questions in this part in order to make them clear, concise, and to the point. This is your first opportunity to present the claimed work in the context of the SR&ED program. Clear and concise descriptions of the work that directly address these questions will play an important role in deciding if further review of the claimed activities is needed. This could reduce or even eliminate the need for you to submit further information and, as a result, enable the CRA to expedite your claim. Descriptions that are vague, unnecessarily lengthy, or fail to address the questions in technical terms will increase the likelihood of a further review.

There is a limit to the number of words you can use when responding to questions in Section B and Section C. Therefore, the answers should concentrate on the technical facts and should be in the technical language and style of those who did the actual work, or who understand and are familiar with the work.

## Section A – Project identification

In this section, you must provide information on the project that will help the CRA to get an understanding of the nature and scope of the SR&ED work you have performed.

### Line 200 – Project title

Enter the title of the project. If you have a title and a code number for the project, enter both.

### Line 202 – Project start date

Enter the start date of the SR&ED project. The start of the project is defined as the point at which work to resolve scientific or *technological obstacles/uncertainties* commences.

### Line 204 – Completion date

Enter the completion date or expected completion date of the SR&ED project. The completion date of the project is defined as the point at which you overcome all of the scientific or *technological obstacles/uncertainties*, or the date the project is terminated for any reason. It is important to understand that the eligibility of the work also ceases at that point.

If your project is on-going at the end of the tax year, enter the expected completion date. If a project is temporarily stopped and is expected to resume at a future date, enter the date you expect the project to be completed. If you do not know the expected completion date, enter the date the project temporarily stopped.

### Line 206 – Field of science or technology code

From the table in Appendix 1, select the field of science or technology that best describes the primary field that the SR&ED project was attempting to advance in line 240 or 250. While a project may include activities in several fields, Form T661 requires you to identify one field of science or technology that relates to the overall objective of the project. You do not have to break down the project into subprojects for each field of science or technology. Enter the corresponding code on line 206.

Selecting the best overall code will be helpful in providing a focused response to the question at line 240 or 250 concerning advancement.

### Lines 208 and 210 – Continuation of a previously claimed project or first claim for the project

Indicate whether or not you made an SR&ED claim for this project in any previous year. Select only one. If it is an on-going project from a predecessor company and it is the first claim for you, select line 210 (First claim for the project).

### Lines 218 to 221 – Work done jointly or in collaboration with other businesses

**Line 218** – Indicate whether any of the claimed SR&ED project work was done jointly or in collaboration with other businesses. For example, your answer will be “yes” if the work was done as a joint effort or in partnership, with or without a formal agreement.

- Do not include contractors that you hired to perform some or all of the work. Information regarding contractors will be requested on lines 267 to 269.
- Do not include other parties that contracted you to perform SR&ED work. This information will be requested on line 266.

### Lines 220 and 221

(Complete these lines only if you responded “Yes” at line 218.)

Enter on line 220 the names of the businesses that performed SR&ED work, jointly or in collaboration with you. If available, list their corresponding Business Numbers (BN) on line 221.

### Lines 223 to 229 – SR&ED work carried out

Check the boxes that most appropriately describe where the SR&ED work was carried out.

If you check box 226 (In a *commercial plant* or facility), make sure you do not include work related to commercial production or commercial use in your claim.

If you checked box 228 (Others), describe the setting in six words or less on line 229. For example, if your development work was done in a non-commercial setting such as a *pilot plant* or in an area dedicated for field testing, check box 228 (Others) and enter “*pilot plant*” or “field test in a dedicated area” on line 229.

*References: Income Tax Act* paragraph 248(1)(i); SR&ED Application Policy 2002-02R2

### Lines 230 and 232 – Purpose of the work

The definition of SR&ED makes a distinction between *experimental development* and *basic research* or *applied research*. We commonly refer to *basic research* or *applied research* as “*scientific research*.” Check the box that best reflects your project work.

In a rare event that a project involves experimental development and scientific research (basic or applied research), check the box that best reflects the work done in your project. You do not have to break down the project between scientific research and experimental development.

**Line 230** – Check this box if you were attempting to achieve a *technological advancement* for the purpose of creating new materials, devices, products, or processes, or to improve existing ones, even if the attempted improvement is not substantial. This work falls into the category of *experimental development*. Complete Section B.

*Reference: Income Tax Act* paragraph 248(1)(c)

**Line 232** – Check this box if you were attempting to gain new scientific knowledge by advancing the current understanding of scientific principles, methodologies or

relations that may or may not have a specific practical application in view. This work falls in the realm of *scientific research*. Results of this type of work are often published in scientific journals and other peer reviewed publications. Complete Section C.

*Reference: Income Tax Act* paragraphs 248(1)(a) and (b)

## Section B – Experimental development

In this section, you must provide technical details of your *experimental development* project. The technical narrative part of this section on lines 240, 242, and 244 has word limits of 350, 350, and 700 respectively. Therefore, the answers should concentrate on the technical facts and should be in the technical language and style of those who did the actual work, or who understand and are familiar with the work.

### Lines 235 to 238 – Objectives of the technological advancement

Check all boxes that apply.

**Line 235** – Check this box if you were attempting to create new materials, devices, or products.

**Line 236** – Check this box if you were attempting to create new processes.

**Line 237** – Check this box if you were attempting to improve existing materials, devices, or products.

**Line 238** – Check this box if you were attempting to improve existing processes.

### Lines 240 to 244

Use materials and documents naturally generated during the course of the development to identify the pertinent information to complete these questions. The naturally generated materials and documentation available need to provide the CRA with a reasonable level of support for the SR&ED work that was performed in the year. (Please see Appendix 2, “Documentation and other evidence to support your SR&ED claim.”)

If you are using approved tax software to prepare your Income Tax Return, your responses to these lines for each project should be included in the software and should not be submitted as a separate attachment.

If you are not using approved tax software to prepare your claim, use a separate sheet if necessary to respond to these lines. Each separate sheet must be clearly labelled with the project title and the question you are answering.

Refer to the SR&ED Web site to view examples of technical descriptions addressing the questions in this section. Please note that the examples are provided for educational purposes.

### Line 240 – What technological advancements were you trying to achieve?

(Maximum 350 words)

In responding to this question, we suggest that you:

- 1) indicate the technological objective of the project and describe the new or improved capability that you were trying to achieve in this project;



- 2) indicate in what manner the work you did to develop this new or improved capability advanced the existing state of knowledge in the field of technology you identified in line 206; and
- 3) explain why the new capability represents a **technological advancement** in terms of the underlying technology, and what knowledge you gained as a result of the work you did, regardless of success or failure. In other words, how have you advanced the current state of the art or the **technology base or level** that existed at the onset of this project?

Your response should focus on describing the improvements you made to the existing technology that lead to the creation of new or improved materials, devices, products, or processes. It is the advancement in the underlying technology that is important, not how the work advanced your business practices.

**Tip**

Achieving the novelty, innovation, uniqueness, feature enhancement, or increased functionality of the product or process may not in itself demonstrate **technological advancement**. It is important to describe what advances you made to your existing technology that enabled you to achieve it.

*Reference:* Information Circular IC 86-4R3

**Line 242 – What technological obstacles did you have to overcome to achieve those advancements?**

*(Maximum 350 words)*

Describe the shortcomings and/or limitations of the current state of technology that prevented you from developing the new or improved capability. In this context, describe the technological problems and unknown elements that had to be removed while you attempted to achieve the **technological advancement(s)** identified in line 240.

Your response should clearly describe the technological problems that could not be removed through the application of the **technology base or level** that existed at the start of the **experimental development** project.

*Reference:* Information Circular IC86-4R3 (section 2.10.2)

**Line 244 – What work did you perform in the tax year to overcome those technological obstacles?**

*(Maximum 700 words)*

In responding to this question, we suggest that you:

- 1) describe only the work that was actually carried out during the tax year and for which you are claiming expenditures in the tax year;
- 2) describe, in a clear and concise manner, how you attempted to overcome the **technological obstacles** that you identified in line 242;
- 3) describe, in chronological order, the work done to remove problems in the underlying technology; and
- 4) clearly demonstrate the systematic nature of the investigation or search and describes the experiments and/or analysis conducted to overcome those obstacles, including the results obtained, their interpretation, and the conclusions made.

If this is a continuation of a previously claimed project, clearly and concisely describe the work carried out during the year of the claim and explain how it relates to the **technological advancement** and **technological obstacles** identified in lines 240 and 242 above.

If all or part of the work was performed on your behalf by contractors, include that work in your description and identify that the work was performed by contractors.

*Reference:* Information Circular IC86-4R3

**Section C – Basic or applied research**

In this section you must provide technical details of your **basic research** or **applied research** project. The technical narratives on lines 250 and 252 have word limits of 350 and 700 respectively. Therefore, the answers should concentrate on the scientific facts and should be in the scientific language and style of those who did the actual work.

Use existing materials and documents generated during the course of your research work to extract the pertinent information to complete this section.

If you are using approved tax software to prepare your Income Tax Return, your responses to these lines for each project should be included in the software and should not be submitted as a separate attachment.

If you are not using approved tax software to prepare your claim, use a separate sheet if necessary to respond to these lines. Each separate sheet must be clearly labelled with the project title and the question you are answering.

**Line 250 – Describe the scientific knowledge that you were trying to advance.**

*(Maximum 350 words)*

In responding to this question, we suggest that you:

- 1) describe the scientific knowledge that you gained or were attempting to gain with the work you did;
- 2) explain why the new knowledge gained as a result of your work is an advance relative to the scientific knowledge that was available at the onset of the project, regardless of success or failure; and
- 3) indicate how the results of your experiments or analysis advanced the understanding of scientific principles, methodologies, or relations.

*Reference:* Information Circular IC86-4R3

**Line 252 – Summarize the work performed in the tax year and explain how that work contributed to the advancement of scientific knowledge.**

*(Maximum 700 words)*

In responding to this question, we suggest that you:

- 1) describe only the work that was actually carried out during the tax year and for which you are claiming expenditures in the tax year;
- 2) describe the principles underlying the new concepts that will address the inadequacies of the existing scientific knowledge; and

- 3) summarize the experiments and/or analysis conducted, including the results obtained, their interpretation, and the conclusions made. Make sure your conclusions relate to the scientific knowledge that you were attempting to gain as stated in line 250 above.

*Reference:* Information Circular IC86-4R3

## Section D – Additional project information

In this section, provide additional information that will help the CRA to get a better understanding of the context of your project. A better understanding of the project may allow the CRA to expedite the processing of your claim.

### Lines 253 to 259 – Who prepared the technical descriptions?

Provide information on who prepared the responses for Section B or Section C.

**Line 253** – Check this box if an employee who was directly involved in the project prepared the responses to Section B or Section C. A directly involved employee is an employee of the company who performed or directly supervised the SR&ED work described on line 244 or line 252.

If you check box 253, complete line 254.

**Line 254** – Provide the name of the directly involved employee who prepared the response.

(Complete this line only if you checked box 253.)

**Line 255** – Check this box if an employee who was **not** directly involved in the project prepared the responses to Section B or Section C.

If you check this box complete line 256.

**Line 256** – Provide the name of the employee who prepared the response.

(Complete this line only if you checked box 255.)

**Line 257** – Check this box if an external consultant prepared the responses to Section B or Section C. An external consultant is not an employee of the company.

If you check this box complete lines 258 and 259.

**Lines 258 and 259** – Provide the name and firm of the external consultant who prepared the responses.

(Complete these lines only if you checked box 257.)

### Lines 260 and 261 – Key individuals

**Line 260** – Provide the names of *key individuals* directly involved in the project. You may list up to three individuals. A directly involved individual is a person that performed or directly supervised the SR&ED work described on line 244 or line 252.

**Line 261** – Provide the qualifications or experience and position title of the individuals listed on line 260. If any of the individuals are contractors, use ‘contractor’ for position title. The experience listed on this line should be relevant to the SR&ED work performed.

### Line 265 – SR&ED performed outside Canada

Indicate whether you are claiming any *salaries or wages* for SR&ED work performed outside Canada.

### Line 266 – SR&ED carried out on behalf of another party

Indicate if any of the work you are claiming was carried out on behalf of another party.

For example, you would answer “Yes” to this question if you had performed any SR&ED work on behalf of another business on a contract basis.

Do not include any work you performed jointly or in collaboration with other businesses. Information regarding joint efforts is requested on lines 218 to 221.

### Lines 267 to 269 – SR&ED performed by others

**Line 267** – Indicate if you are claiming SR&ED work that was performed by others who are not employees of your company (e.g., contractors).

#### Note

If all or part of the work was performed by contractors, ensure that a description of the work performed on your behalf and a copy of the contract, including a statement of work, are available for review in the event your SR&ED claim is selected for a detailed review.

If you answered “Yes” to line 267 complete lines 268 and 269.

If you are not using approved tax software to prepare your claim, attach a separate sheet if there are more than two parties.

### Line 268 – Names

Provide the names of the individuals or companies who performed the work.

### Line 269 – Business Number

Provide the business number (BN) of those listed on Line 268. For individuals you may provide the GST or HST number.

### Lines 270 to 282 – Evidence to support your claim

Indicate what evidence you have to support your SR&ED claim. Check all items on the list that apply. If you have items or documents to support your claim that are not listed, check box 281 and use 15 words or less to specify them on line 282.

If you mistakenly fail to check a box when you file your claim initially, you may still provide the evidence to the CRA reviewer during the review of your claim even if the reporting deadline has passed.

### Do not submit these documents or items with your claim.

Refer to Appendix 2 for more detailed information on substantiating evidence and documentation.

## Section E – Project cost

In this section provide information on costs incurred in the tax year for the project.

### Line 285 – Salary or wages

Enter the *salary or wages* allocated to the project of employees who *performed SR&ED work*, including *specified employees*.

#### Note

Do not include amounts claimed on line 310.

### Line 286 – Materials consumed and transformed

Enter the cost of all *materials* consumed and transformed in SR&ED allocated to the project.

### Line 287 – SR&ED contracts

Enter contract expenditures for SR&ED performed on your behalf by *arm's length* and *non-arm's length* contractors for the project.

### Line 289 – Overhead and other expenditures

If you are using the traditional method, enter the overhead and other related expenditures incurred for the project.

(Complete this line only if you choose line 162 on Part 3 of this form.)

## Part 3 – Calculation of SR&ED expenditures

In this part you determine how much you spent on the SR&ED work performed in the year. Part 3 of the form is divided into three sections.

## Section A – Select the method to calculate the SR&ED expenditures

In this section you have to decide on the method used to calculate the SR&ED expenditures. You can either elect to use the proxy method or choose to use the traditional method. You have to select one method for each tax year for which you want to claim SR&ED expenditures. It is important to note that your choice cannot be changed for the tax year once your claim is filed.

The traditional method involves specifically identifying and claiming all overhead and other expenditures for SR&ED you incurred during the year. The proxy method provides an alternative method to computing overhead and other expenditures called the *prescribed proxy amount (PPA)*. You do not include the *PPA* in the *pool* of deductible SR&ED expenditures, and you do not deduct it when calculating income. But you can earn an ITC on the *PPA* as it forms part of the qualified SR&ED expenditures (refer to Part 4).

Before selecting the method, refer to Tables 1 and 2 that show how to treat expenditures under each method.

### Lines 160 and 162 – Choice of method

**Line 160** – Check this box if you elect to use the proxy method to calculate your SR&ED expenditures. Complete Part 5 and enter “0” at line 360.

**Line 162** – Check this box if you choose to use the traditional method to calculate your SR&ED expenditures. Make sure you complete line 360 and track your expenses. Do not complete Part 5 and enter “0” at line 355.

*References: Income Tax Act* subsection 37(10); Interpretation Bulletin IT-151R5 (Consolidated)

**Table 1**

**Treatment of SR&ED expenditures under the traditional and the proxy methods**

Expenditure	Traditional method	Proxy method
<b>Salary or wages</b> of employees <i>directly engaged in SR&amp;ED</i>	<ul style="list-style-type: none"> <li>■ eligible for ITC</li> <li>■ deductible SR&amp;ED expenditure</li> </ul>	<ul style="list-style-type: none"> <li>■ eligible for ITC and used in the calculation of the <b>salary base</b> for the <b>PPA</b> (see Part 5)</li> <li>■ deductible SR&amp;ED expenditure</li> </ul>
Overhead and other expenditures <i>directly related</i> and <i>incremental</i> to SR&ED	<ul style="list-style-type: none"> <li>■ eligible for ITC (see line 360)</li> <li>■ deductible SR&amp;ED expenditure</li> </ul>	<ul style="list-style-type: none"> <li>■ not specifically identified</li> <li>■ covered in the <b>PPA</b></li> <li>■ <b>PPA</b> is eligible for ITC</li> <li>■ deductible as regular business expenses only—not deductible as SR&amp;ED expenditure</li> </ul>
Other expenditures claimed separately: <ul style="list-style-type: none"> <li>■ <b>materials</b> consumed or transformed in performing SR&amp;ED</li> <li>■ lease costs of SR&amp;ED equipment</li> <li>■ expenditures for SR&amp;ED directly undertaken on your behalf</li> <li>■ third-party payments</li> </ul>	<ul style="list-style-type: none"> <li>■ eligible for ITC</li> <li>■ deductible SR&amp;ED expenditure</li> <li>■ can claim lease costs of equipment where it is used <b>all or substantially all (ASA)</b> in SR&amp;ED (see line 350)</li> <li>■ can claim lease costs of SR&amp;ED equipment used in SR&amp;ED but not used <b>ASA</b> as an overhead expense (see line 360)</li> </ul>	<ul style="list-style-type: none"> <li>■ eligible for ITC</li> <li>■ deductible SR&amp;ED expenditure</li> <li>■ can claim lease costs of SR&amp;ED equipment where it is used <b>ASA</b> in SR&amp;ED, excluding <b>general-purpose office equipment or furniture</b> (see line 350)</li> <li>■ can claim lease costs of equipment where it is used <b>primarily</b> in SR&amp;ED excluding <b>general-purpose office equipment or furniture</b> (see line 355)</li> </ul>

The **PPA** approximates overhead and other expenditures such as:

- office supplies
- **general-purpose office equipment or furniture**
- heat, water, electricity, and telephones
- **salary or wages** for support staff
- Other salary or wages of employees who directly undertake, supervise, or support the performance of SR&ED, that are directly related but not for work directly engaged in SR&ED (for example; long-term planning for future SR&ED projects, contract administration)
- Contract costs for work that is not SR&ED (for example; Contract costs for work of electricians, welders, mechanics) that are directly related and incremental to the performance of SR&ED
- Employer's share of related benefits
- travel and training
- property taxes
- maintenance and upkeep of SR&ED premises, facilities, or equipment
- any other eligible expenditure **directly related** to the performance of SR&ED that you would not have incurred if the SR&ED had not been carried out

**Table 2**  
**Advantages and disadvantages**  
**of the proxy method and the traditional method**

Method	Advantages	Disadvantages
<b>Proxy method</b>	<ul style="list-style-type: none"> <li>■ no need to track overhead and other expenditures for SR&amp;ED</li> <li>■ ITC is earned on the <b>PPA</b>, which is 65% of the <b>salary base</b> calculated using <b>directly engaged</b> SR&amp;ED <b>salary or wages</b>.</li> <li>■ easy to determine the <b>PPA</b> once you establish the <b>salary base</b> (PPA is calculated in Part 5)</li> </ul>	<ul style="list-style-type: none"> <li>■ the <b>PPA</b> cannot be included in the SR&amp;ED expenditure <b>pool</b> nor can the expenditures that the <b>PPA</b> represents</li> <li>■ the <b>salary base</b> must be calculated</li> <li>■ overall cap on the <b>PPA</b> may need to be calculated (see example in Part 5, Section B)</li> <li>■ the <b>PPA</b> may be less than the overhead and other expenditures actually incurred</li> </ul>
<b>Traditional method</b>	<ul style="list-style-type: none"> <li>■ add overhead and other expenditures to the <b>pool of deductible SR&amp;ED expenditures</b></li> <li>■ can earn ITC on the overhead and other expenditures actually incurred</li> <li>■ may result in actual overhead and other expenditures being greater than the <b>PPA</b></li> <li>■ do not need to calculate the <b>salary base</b> and determine the <b>PPA</b> in Part 5</li> <li>■ do not need to calculate the overall cap</li> </ul>	<ul style="list-style-type: none"> <li>■ must demonstrate that the overhead and other expenditures are <b>directly related</b> and <b>incremental</b> to the SR&amp;ED</li> <li>■ can be complex in certain situations such as when SR&amp;ED and non-SR&amp;ED work are carried out in the same facility (e.g., shop-floor SR&amp;ED)</li> <li>■ must specifically identify or allocate which overhead and other expenditures are for the SR&amp;ED work</li> <li>■ must explain how you determined the amount, and provide support for the determination and expenditures claimed</li> </ul>

## Section B – Calculation of allowable SR&ED expenditures

In this section compute your allowable SR&ED expenditures related to your SR&ED projects. Enter the current and capital SR&ED expenditures that you made in the year for the SR&ED projects you are claiming.

### Lines 300 to 309 – Salary or wages of employees directly engaged in SR&ED

The **salary or wages** that you include in lines 300 to 309 must only be for employees who are **directly engaged in SR&ED**. The expression "**directly engaged in SR&ED**" refers to hands on work. We provide below in Table 3 a list of various tasks and duties that you can claim as directly engaged work.

#### Tip

**Salary or wages** could relate to gross wages reported on a T4 slip for the calendar year if your tax year ends at the calendar year-end. Do not include in **salary or wages** the employer's share of the **related benefits**.

You must separate the amount of **salary or wages** for employees who are **specified employees** and those who are not. A **specified employee** is a person who owns 10 per cent or more of the issued shares of any class of the capital stock of the corporation or who does not deal at **arm's length** with the corporation.

#### Tip

If you are using the traditional method you may be able to claim as overhead and other expenditures at line 360 the employer's share of the **related benefits** and certain salaries for management and support staff who are not

directly engaged but who have performed functions which were **directly related** to the SR&ED performed in the year. See Table 5 for the types of **salaries or wages** that can be included at line 360.

### Line 300 – Employees other than specified employees for work performed in Canada

Enter the portion of **salary or wages** and **taxable benefits** you paid to or incurred for your employees who are **directly engaged in SR&ED** for work performed in Canada. The portion of **salary or wages** to be included in your claim is the time spent on SR&ED activities.

#### Example

An employee works 2,000 actual hours in a 12-month period, and spends 1,000 hours (50% of his or her time) on SR&ED. The portion to be claimed as an SR&ED expenditure, based on a salary of \$50,000, would be \$25,000 (i.e.  $1,000/2,000 \times \$50,000$ ).

Employees who are directly engaged and spend **all or substantially all (ASA)** of their time in SR&ED will be considered to spend all of their time in SR&ED.

#### Example

If you incur \$100,000 of **salary or wages** for an employee who spent at least 90% of his or her time **directly engaged in SR&ED** in Canada, then \$100,000 is considered to be the **salary or wages** for that employee, and not \$90,000.

### Line 305 – Specified employees for work performed in Canada

Enter the portion of *salary or wages* and *taxable benefits* you paid or incurred for your *specified employees* who are *directly engaged in SR&ED* for work performed in Canada. These amounts are computed in the same manner as amounts under line 300 above, with the following two exceptions:

1. For *specified employees*, you cannot include bonuses or remuneration based on profits.
2. For *specified employees* the maximum amount of *salary or wages* is limited to five times the *year's maximum pensionable earnings (YMPE)*. To obtain the *YMPE* for each year, use the following link:  
[www.cra.gc.ca/limits](http://www.cra.gc.ca/limits)

The maximum amount is prorated by the number of days in the tax year in which the employee is a *specified employee*. If a *specified employee* is also performing SR&ED for an associated corporation, the maximum amount must be allocated between the associated corporations using Form T1174, *Agreement Between Associated Corporations to Allocate Salary or Wages of Specified Employees for Scientific Research and Experimental Development (SR&ED)*.

### Line 307 – Employees other than specified employees for work performed outside Canada

Enter the portion of the permissible *salary or wages* for SR&ED performed outside Canada relating to employees other than *specified employees*.

In order to determine the amount that can be claimed as the permissible *salary or wages* for SR&ED performed outside Canada you will first have to calculate the two amounts A and B below. The lower of **Amount A** or **B** can be claimed as the permissible *salary or wages* for SR&ED performed outside Canada.

**Amount A** – the total of *salary or wages* for SR&ED work performed outside Canada

Determine the portion of *salary or wages* and *taxable benefits* you paid to your employees other than *specified employees* who are *directly engaged in SR&ED* for work performed outside Canada. Refer to line 300 for examples on how to calculate the portion of *salaries or wages*.

The *salary or wages* that you can claim for SR&ED work performed outside Canada must meet the following criteria:

- The costs were incurred after February 25, 2008;
- The SR&ED work was directly undertaken by you and not performed by a contractor;
- The employee who performed the SR&ED work was a resident of Canada at the time the expense was incurred;

- The SR&ED work carried on by the employee outside Canada was an integral part and solely in support of the SR&ED work for a project carried on in Canada; and
- *Salary or wages* paid were not subject to income or profits tax from another country.

**Amount B** – 10% of the total of SR&ED *salary or wages* for SR&ED performed in Canada.

This limit is calculated as 10% of line 306, which is the total *salary or wages* claimed for SR&ED performed in Canada. For the tax year that includes February 26, 2008, the 10% limit is prorated based on the number of days after February 25, 2008, that are in that tax year over the total number of days that are in that tax year.

#### Tip

Under the traditional method, Amount B can include the portion of other *salary or wages* of employees who directly undertake, supervise, or support the SR&ED that you claim on line 360. See Table 5 for examples of such tasks.

#### Example

Company A's tax year end is September 30, 2008.

Company A claimed one SR&ED project carried out in Canada during the tax year.

Company A has five employees (other than specified employees) performing SR&ED and each are paid \$9,000 per month.

All employees are working 100% of their time on the SR&ED project and they all reside in Canada.

Company A's SR&ED salaries for 2008 tax year are \$540,000 ( $\$9,000 \times 12 \times 5 = \$540,000$ ).

Employee 1 performed SR&ED work outside Canada in November 2007 (30 days).

Employee 2 performed SR&ED work outside Canada in March 2008 (31 days).

**The eligible salary for work performed outside Canada is the lesser of A or B:**

A \$9,000 Eligible salary for Employee 2 only.

Employee 1 performed SR&ED work before February 25, 2008.

B \$31,092 (total *salary or wages* for SR&ED performed in Canada)  $\times$  (10%)  $\times$  (proration for the number of days in the tax year after February 25, 2008 / total number of days in the tax year)

$(\$540,000 - \$18,000) \times (10\%) \times (218 / 366)$

Based on the above calculation the amount that you can claim on line 307 is \$9,000.

**Line 309 – Specified employees for work performed outside Canada**

Enter the portion of the permissible *salary or wages* for SR&ED performed outside Canada relating to *specified employees*. Refer to line 307 on how to calculate the permissible *salary or wages* for SR&ED performed outside Canada subject to two additional limitations outlined below, which are the same as line 305:

1. For *specified employees*, do not include bonuses or remuneration based on profits.
2. For *specified employees* the maximum amount of *salary or wages* is limited to five times the *year's maximum pensionable earnings (YMPE)* determined for purposes of the Canada Pension Plan. To obtain the *YMPE* for each year, use the following link:  
[www.cra.gc.ca/limits](http://www.cra.gc.ca/limits)

**Note**

Total of lines 307 and 309 cannot exceed 10% of the amount on line 306.

The maximum amount is prorated by the number of days in the tax year in which the employee is a *specified employee*. If a *specified employee* is also performing SR&ED for an associated corporation,

the maximum amount must be allocated between the associated corporations using Form T1174, *Agreement Between Associated Corporations to Allocate Salary or Wages of Specified Employees for Scientific Research and Experimental Development (SR&ED)*.

**Lines 310 and 315 – Unpaid salary or wages**

The *salary or wages* and other remuneration incurred but not paid within 180 days of the tax year end are deemed not incurred in the year. They are deemed incurred in the year the amounts are paid.

**Line 310 – Salary or wages from prior years paid in the year**

Enter any amounts reported on line 315 in prior years that were paid in the year of this claim.

**Line 315 – Unpaid salary or wages**

Enter the amount of *salary or wages* incurred in the year but not paid within 180 days of the tax year end. The unpaid amount you reported on line 315 should not be included in lines 300 to 309, or 360. In a subsequent tax year in which you pay the expenditure, you can include the expenditure on line 310 of Form T661.

**Table 3**  
**How to claim salaries or wages for SR&ED**

Type of task or duty	Salary or wages for employees directly engaged in SR&ED	Salary or wages for overhead and other expenditures	Non-SR&ED salary or wages
	Lines 300, 305, 307 and/or 309	Line 360 (Traditional method only)	Do not claim on Form T661
1. Experimentation and analysis.	X		
2. Support work of engineering, design, operations research, mathematical analysis, computer programming, data collection, testing or psychological research.	X		
3. Non-specialized employees: <ul style="list-style-type: none"> <li>■ operating a machine for the purposes of an experiment that requires the use of this machine;</li> <li>■ feeding raw materials into a machine.</li> </ul> <p>To be eligible, the non-specialized employee's work must be supervised by staff with scientific or technological qualifications.</p>	X		
4. Supervision of employees performing SR&ED and <b>SR&amp;ED contract</b> administration (technical input only).	X		
5. Technological planning for ongoing SR&ED projects you claimed in the year, such as planning for: <ul style="list-style-type: none"> <li>■ assignment of technological personnel;</li> <li>■ job priorities;</li> <li>■ development of technological strategies;</li> <li>■ quality of material used.</li> </ul>	X		
6. Technological feasibility studies relating to SR&ED projects carried out.	X		
7. Technical documentation for internal use.	X		
8. Long-term planning for future SR&ED projects, for example: <ul style="list-style-type: none"> <li>■ planning for prototype vs. commercial scale;</li> <li>■ project selection.</li> </ul>		X	
9. Human-resource activities such as technological staffing.		X	
10. <b>SR&amp;ED contract</b> administration.		X	
11. Technological training for ongoing SR&ED projects you claimed in the year.		X	
12. Preparation of Form T661 for SR&ED projects carried out in the current year.		X	
13. Clerical and other support (e.g., in personnel, accounting, maintenance or repairs, and purchasing) if the functions performed are non-technological and aid the ongoing SR&ED you claimed in the year, and the <b>salaries or wages</b> of the employees providing the support are <b>directly related</b> and <b>incremental</b> to the prosecution of SR&ED.		X	
14. Preparation of user manuals.			X
15. Administrative training.			X

*References: Income Tax Act sections 5 to 8, subsections 37(1.4), 37(1.5), 37(9), 37(9.5), 78(4) and 248(1), paragraph 37(1)(a), clause 37(8)(a)(ii)(A), subclause 37(8)(a)(ii)(B)(IV); Income Tax Regulation 2900(2)(b); Interpretation Bulletin IT-151R5; SR&ED Application Policies 1996-06, 2002-01 and 2004-01; Guidance Document: Allocation of Labour Expenditures for SR&ED and Form T1174, Agreement Between Associated Corporations to Allocate Salary or Wages of Specified Employees for Scientific Research and Experimental Development (SR&ED)*



### Line 320 – Cost of materials consumed

Enter the cost of *materials consumed* in the performance of SR&ED. The *materials consumed* in the performance of SR&ED means that you destroyed the *materials* or rendered them virtually valueless as a result of the SR&ED. However, do not include expenditures for items such as cleaning supplies, DVDs, CDs, and test tubes. Such items are supplies and are considered as overhead.

If you incur costs for *materials* that you will use later in SR&ED, the cost of these *materials* can only be claimed as an SR&ED expenditure in the year in which you will consume the *materials*. The cost of *materials* includes invoice costs, custom and excise duties, transportation, other acquisition costs and storage costs.

*References:* *Income Tax Act* subclause 37(8)(a)(ii)(B)(V); *Income Tax Regulation* 2900(2)(a); Interpretation Bulletin IT-151R5; SR&ED Application Policies 2000-01, 2002-02R2 and 2004-03

### Line 325 – Cost of materials transformed

Enter the cost of *materials transformed* into another product during the performance of SR&ED. *Materials transformed* are described as *materials* that have been incorporated into other *materials* or products that have some value either to the claimant or to another party.

#### Tip

There may be an ITC recapture when you sell the *materials transformed* or convert them to commercial use. This amount will be added to your tax payable.

*References:* *Income Tax Act* subclauses 37(8)(a)(ii)(A)(I) and 37(8)(a)(i)(A)(II); *Income Tax Regulation* 2900(2)(a); SR&ED Application Policies 2000-01, 2000-04R2, 2002-02R2 and 2004-03

### Lines 340 and 345 – SR&ED contracts

You can claim expenditures for *SR&ED contracts* when you hire a contractor or subcontractor to do SR&ED work on your behalf. You must show that the SR&ED work was carried out in Canada and was related to your business.

#### Is it an SR&ED contract or a third-party payment?

It is important to distinguish between contracts for SR&ED performed on your behalf and payments that you made to certain third-parties to be used for SR&ED in Canada.

Payments to a university, association or other organization are usually considered to be third-party payments. Third-party payments refer to amounts paid for SR&ED not directly undertaken by you or on your behalf. The third-party payments must be for SR&ED carried out in Canada, the SR&ED must be related to your business and you must be entitled to exploit the results of that SR&ED. Third-party payments are reported on line 370.

The following table will help you distinguish between payments for SR&ED performed on your behalf (*SR&ED contracts*) and third-party payments.

Characteristic	SR&ED contract	Third-party payment
Control of SR&ED	Payer	Performer
Rights	Exclusive	Non-exclusive (generally published)
Number of funders	Usually limited to one payer	Multiple funders
Type of SR&ED	Commercially focused	Often basic or applied research

Separate the SR&ED *arm's length* and *non-arm's length* contract expenditures between *arm's length* contractors and *non-arm's length* contractors. Whether parties are at *arm's length* or not has implications for the calculation of qualified expenditures for investment tax credits (ITC) in Part 4.

### Line 340 – Arm's length contracts

Enter the amount you paid or that was payable to *arm's length* contractors who performed SR&ED work on your behalf.

### Line 345 – Non-arm's length contracts

Enter the amount you paid or that was payable to *non-arm's length* contractors who performed SR&ED work on your behalf. When someone performs SR&ED on your behalf and you do not deal with each other at *arm's length*, your SR&ED expenditures are deductible but do not qualify for ITC purposes. Refer to line 541 for more details.

*References:* *Income Tax Act* subsection 127(9), subparagraphs 37(1)(a)(i), 37(1)(a)(i.1), 37(1)(a)(ii) and 37(1)(a)(iii); Interpretation Bulletins IT-151R5 and IT-419R2; SR&ED Application Policies 1994-04 and 1996-04

### Line 350 – Lease costs of equipment used all or substantially all for SR&ED

Enter the lease costs of equipment that was used *all or substantially all (ASA)* in the performance of SR&ED in Canada. You must determine the SR&ED usage as a percentage of the total operating time. Generally, operating time means the time the equipment usually runs or functions. If you are using the proxy method, do not include lease costs for *general-purpose office equipment or furniture*.

*References:* *Income Tax Act* subparagraph 37(8)(d)(ii), subclauses 37(8)(a)(ii)(A)(I) and 37(8)(a)(ii)(B)(I); Interpretation Bulletin IT-151R5

### Line 355 – Lease costs of equipment used primarily for SR&ED

If you are using the proxy method, enter half of the lease costs of equipment (other than *general-purpose office equipment or furniture*) that is used *primarily* for SR&ED. "*Primarily*" means more than 50%, but less than 90%, of the time. You must determine the SR&ED usage as a percentage of the total operating time. Generally, operating time means the time the equipment usually runs or functions.

**Tip**

If you are using the traditional method, enter “0” on line 355. You may be able to claim the lease costs for equipment used in SR&ED less than 90% of the time on line 360 as overhead and other expenditures.

*References:* *Income Tax Act* subclause 37(8)(a)(ii)(B)(VI); Interpretation Bulletin IT-151R5

**Line 360 – Overhead and other expenditures**

Enter “0” if you use the proxy method. If you use the traditional method, enter the overhead and other expenditures incurred for the performance of SR&ED in Canada.

All overhead and other expenditures must be *directly attributable* to the performance of SR&ED. Overhead and other expenditures fall into the following categories:

**Salary or wages for the performance of SR&ED (other than directly engaged)**

In lines 300 to 309 you have been asked to include the *salary or wages* for employees who performed tasks or duties *directly engaged in SR&ED*. Under the traditional method you can include the portion of other *salary or wages* of employees who directly undertake, supervise, or support the performance of SR&ED but who are not directly engaged in the SR&ED itself. See Table 5 for examples of such tasks.

**Expenditures that are directly related and incremental to the performance of SR&ED**

Include expenditures, or the portion of an expenditure, that are *directly related* to the performance of SR&ED that would not have been incurred if such work had not occurred (*incremental* expenditures). For these expenditures to qualify as *directly attributable* they have to be *directly related* and *incremental*. These overhead costs have to be specifically identified and the costs allocated to SR&ED. See Table 5 for examples of such costs.

**Expenditures that are for the provisions of premises, facilities or equipment for the performance of SR&ED**

You can include costs for maintaining premises, facilities, or equipment for the performance of SR&ED in Canada. See Table 5 for an example of such costs.

You can also include other expenditures, or portions of expenditures, *directly related* to the provision of premises, facilities, or equipment that you own and are *incremental* to the performance of SR&ED in Canada. For this type of overhead cost, we consider a reasonable percentage of an expenditure to be *incremental*. See Table 5 for examples of such costs.

The following table will help you determine what qualifies as overhead and other expenditures in the performance of SR&ED under the traditional method.

**Table 5**  
**Overhead and other expenditures for SR&ED**

	<b>Directly attributable</b>	<b>Directly related and incremental</b>	<b>Costs must be: Specifically identified (SI) or Reasonable % allocated (R%A)</b>
<b>Salary or wages for the performance of SR&amp;ED (other than directly engaged)</b>			
<b>Salary or wages</b> for the performance of non-technological management activities or decision-making functions that do not directly influence the course of the SR&ED but that <b>directly relate</b> to the SR&ED work (e.g. long-term planning for future SR&ED projects, contract administration). <b>Tip:</b> Under the traditional method, these <i>salary or wages</i> can be included in the calculation of “Amount B” (see line 307).	X		SI
<b>Expenditures that are directly related and incremental to the performance of SR&amp;ED</b>			
Employer’s share of <b>related benefits</b> paid for employees who directly undertake, supervise or support the SR&ED work (such as Canada Pension Plan/Quebec Pension Plan, Employment Insurance, Workplace Safety & Insurance Board, Commission de la santé et de la sécurité du travail du Québec, pension plans or medical and dental plans).	X	X	SI
Retiring allowances paid to employees directly undertaking, supervising, or supporting the performance of SR&ED in Canada.	X	X	SI
Other costs relating to SR&ED work performed in Canada (e.g., utilities, long-distance telephone charges, supplies).	X	X	SI
Travel and training expenses relating to SR&ED work performed in Canada.	X	X	SI
Lease costs of equipment used less than 90% of the time for the SR&ED.	X	X	SI
Contract costs for work that is not SR&ED (for example; work of electricians, welders, mechanics) that are directly related and incremental to the performance of SR&ED.	X	X	SI
See Table 3 – Tasks 9 and 11 to 13	X	X	SI
<b>Expenditures that are for the provisions of premises, facilities or equipment for the performance of SR&amp;ED</b>			
Costs <b>directly attributable</b> to the provision and maintenance of premises, facilities, or equipment for the performance of SR&ED in Canada (e.g. costs for cleaning, painting, servicing equipment).	X		SI
Costs <b>directly related</b> to the provision of premises, facilities, or equipment for the performance of SR&ED and incremental to the SR&ED (e.g. property taxes and insurance on a building that you own, insurance for equipment owned by you).	X	X	R%A

You must identify each overhead expenditure for SR&ED and, where applicable, allocate a reasonable amount to SR&ED. Please be prepared to explain how you determined the amount, provide support for this determination, and where applicable, demonstrate that the overhead expenditures were *incremental* to the SR&ED.

### Example

Corporation A incurs travel costs of \$40,000 in its 2009 tax year. SR&ED employees represent 25% of the total personnel of the corporation. Corporation A cannot claim \$10,000 as an *incremental* SR&ED expenditure for the prosecution of SR&ED. It must demonstrate that the expenditure is *directly related* to the performance of SR&ED and is incremental. For this purpose Corporation A would need to identify each trip, have evidence that each is attributable to SR&ED, and allocate the appropriate costs to SR&ED.

### Tip

If you own a building and use it for the prosecution of SR&ED, we consider a reasonable portion of the municipal taxes or the cost of insurance for the building to be *directly related* and *incremental* to the provision of premises, facilities, or equipment for the performance of SR&ED. The method you use to determine the portion that is *directly related* to the SR&ED has to be reasonable. You can base your allocation, for example, on the area of the building you used for SR&ED over the total area of the building. You can use other methods to determine the portion of an expenditure that is *directly related* to the provision of premises, facilities, or equipment.

**References:** *Income Tax Act* subclauses 37(8)(a)(ii)(A)(I) and 37(8)(a)(ii)(A)(II); *Income Tax Regulations* 2900(2)(b), 2900(2)(c) and 2900(3); Interpretation Bulletin IT-151R5; SR&ED Application Policies 1996-06, 2002-01 and 2004-01

### Line 370 – Third-party payments

A third-party payment is generally a payment that you made to a university or college, or other approved entity. The third-party payment must be for SR&ED work carried out in Canada that is related to your business, and you must be entitled to exploit the results of the SR&ED. For a list of the approved entities, consult the Appendix to IT-151R5 (Consolidated), *Scientific Research and Experimental Development Expenditures* or contact the organization in question.

If you made a third-party payment, you must complete Form T1263, *Third-Party Payments for Scientific Research and Experimental Development (SR&ED)* for each payment and attach it to Form T661. On line 370, include the total of all third-party payments for SR&ED that you reported on Form(s) T1263.

### Tip

You do not need to submit Part 2 – Project information, for these expenditures.

### Example

A businessman in the construction industry makes a payment to a hospital for medical research in the hope that they will find a cure that would aid many people. Although SR&ED may be done, in general, it would be unrelated to his business, and the business would be unable to make use

of the results of the research. Therefore, the payment fails the “related to a business” and “entitled to exploit the results” tests.

### Third-party payments for farm producers

Special rules apply to contributions made by farm producers to agricultural organizations (also known as ‘check-offs’) to qualify as third-party payments. For more information, refer to our Web site at [www.cra.gc.ca/sred](http://www.cra.gc.ca/sred) under the heading “SR&ED forms and publications” and sub-heading “Sector-specific guides”, click on “Farm Producers and Agricultural Organizations” and click on “Information for Agricultural Organizations and Farm Producers on Access to SR&ED Investment Tax Credits.”

Farm producers are required to file either Schedule T2 SCH 31 or Form T2038 (IND) to receive investment tax credits on third-party payments (check-offs) made to agricultural organizations. However, they do not need to file a Form T661 or Form T1263.

**References:** *Income Tax Act* subsection 37(7), paragraphs 37(8)(b) and 37(8)(c), subparagraphs 37(1)(a)(i.1), 37(1)(a)(ii) and 37(1)(a)(iii); Interpretation Bulletin IT-151R5; SR&ED Application Policies 1996-04, 1996-10 and 2001-01; Form T1263 *Third-Party Payments for Scientific Research and Experimental Development (SR&ED)*

### Line 380 – Total current SR&ED expenditures

Total current SR&ED expenditures are the total of lines 306 to 370 but not including line 315. Enter the total current SR&ED expenditures on line 380.

### Tip

If the above expenditures have been included in your income statement, enter this amount on line 118 of Schedule T2SCH1, or, if you are an individual, include this in your self-employment income (lines 135 to 143) reported in your Individual Income Tax and Benefit Return.

### Line 390 – Capital Expenditures

An SR&ED capital expenditure is an expenditure you made to acquire new or used *depreciable property* that you intended either to:

- use *all or substantially all (ASA)* of the operating time in its expected useful lifetime in the performance of SR&ED in Canada; or
- consume ASA of its value in the performance of SR&ED in Canada.

In addition, the capital expenditure must be for SR&ED carried out in Canada and the SR&ED carried out must be related to your business. We recommend that you keep a list of capital items you acquired in the year for SR&ED claimed as capital expenditures.

You cannot claim property as a capital expenditure until the property becomes *available for use*. However, you should consider the eligibility of the property beyond its use in the year you make the expenditure and consider the intended use over the lifetime of the asset.

Non-depreciable assets, buildings, and leasehold interests in buildings are not eligible SR&ED capital expenditures. Also the expenditures you incurred for **used** equipment are entered at line 390 and form part of the *pool of deductible SR&ED expenditures*, but do not qualify for investment tax credit (ITC) purposes (refer to line 532).

#### Example

A claimant acquires land, a building, and equipment to be used *ASA* in the performance of SR&ED. The only eligible expenditure is the equipment since land is a *non-depreciable* asset and buildings are generally excluded.

The only difference in determining capital expenditures under the traditional method and the proxy method is that you cannot include expenditures for *general-purpose office equipment or furniture* if you use the proxy method.

When you sell the SR&ED property or convert it to commercial use, there may be an ITC recapture. Refer to line 440 for further details on ITC recaptures.

#### Tips

1. The capital expenditures claimed on line 390 must not be included on schedule T2 SCH 8, *Capital Cost Allowance*.
2. You may be entitled to include in your SR&ED claim your capital expenditures that do not meet the *ASA* test if they qualify as *shared-use equipment (SUE)*. Refer to line 504 for more details on *SUE*.

*References: Income Tax Act* paragraph 37(1)(b), subparagraphs 37(8)(d)(i) and 37(8)(d)(ii), subclauses 37(8)(a)(ii)(A)(III) and 37(8)(a)(ii)(B)(III); *Income Tax Regulation* 1102(1)(d); Interpretation Bulletin IT-151R5; SR&ED Application Policies 2000-04R2 and 2003-01

#### Line 400 – Total allowable SR&ED expenditures

Allowable SR&ED expenditures are the total current and capital expenditures you made in the year. On line 400, enter the total of the amounts of lines 380 and 390.

### Section C – Calculation of pool of deductible SR&ED expenditures

Now that you have computed the total allowable SR&ED expenditures (line 400), in this section you will calculate the *pool of deductible SR&ED expenditures* that is available for deduction against your income for tax purposes. The *pool* concept basically allows you the option of deducting the entire SR&ED expenditures available for the year or any portion thereof. The unclaimed balance may be carried forward to be claimed in future years.

#### Lines 429 to 432 – Government and non-government assistance

If, at the filing due date of your income tax return for the year, you have received, are entitled to receive, or can reasonably expect to receive assistance, include the assistance on line 429, 431 and 432, as appropriate. This will reduce your *pool of deductible SR&ED expenditures*.

Only include assistance for SR&ED expenditures you have claimed. If you are using the proxy method, you do not deduct the assistance for expenditures that the *prescribed*

*proxy amount (PPA)* replaces. The assistance that you include on lines 429 to 432 should not be included in your net income for tax purposes.

#### Line 429 – Provincial/territorial government assistance

Enter the amount of provincial/territorial government assistance for SR&ED that you have received, are entitled to receive, or can reasonably expect to receive. This includes the provincial/territorial SR&ED or R&D tax credits, and any forgivable loans, grants, subsidies, deductions from tax, investment allowances, or any other form of assistance from provincial/territorial governments.

#### Note

For many provincial/territorial R&D assistance programs, you must renounce the assistance by the filing deadline of the provincial/territorial return if you do not wish to receive it. Otherwise, you are still entitled to receive it and it will be deducted from your *pool of deductible SR&ED* expenditures even if you have not claimed this assistance.

#### Line 431 – Other government assistance

Enter the amount of other government assistance for SR&ED that you have received, are entitled to receive, or can reasonably expect to receive. This includes forgivable loans, grants, subsidies, and deductions from tax, investment allowances, or any other form of assistance from federal or municipal governments or public authorities, excluding the federal SR&ED ITC.

#### Line 432 – Non-government assistance

Enter the amount of non-government assistance for SR&ED that you have received, are entitled to receive, or can reasonably expect to receive. This includes inducements and other assistance that you obtained from other persons including corporations. If an amount was correctly included in income or has been correctly applied to reduce the amount of the expenses because of some other provision of the *Income Tax Act*, then it is not non-government assistance.

*References: Income Tax Act* subsection 127(9), paragraphs 12(1)(x) and 37(1)(d); Interpretation Bulletin IT-151R5; SR&ED Application Policy 2005-02; Form T1145, *Agreement to Allocate Assistance for SR&ED Between Persons Not Dealing at Arm's Length*

#### Line 435 – SR&ED ITC applied and/or refunded in the prior year

Enter the ITC for qualified SR&ED expenditures that you claimed in the prior year. This will reduce your *pool of deductible SR&ED expenditures* in the current year. The prior year ITC amount claimed can include the following:

1. ITC refunds;
2. ITC used to reduce taxes payable; and
3. ITC you carried back to previous years.

Do not include the portion of the ITC that relates to *shared-use equipment*. When an ITC deducted or refunded may reasonably be considered to relate to a property acquired in a preceding year as *shared-use equipment*, it will reduce the capital cost of the property acquired. For more details on *shared-use equipment*, see line 504.

Corporations can determine the amount to include at line 435 by adding lines 510, 560, 580, 610, 911, 912 and 913 of the prior year Schedule T2 SCH 31; individuals can use the resulting amounts on lines 6712 and 6715 of the prior year Form T2038(IND); or refer to the notice of assessment or other relevant correspondence from the CRA.

**References:** *Income Tax Act* subsections 127(5) and 127.1(1), paragraphs 13(7.1)(e) and 37(1)(e); Interpretation Bulletin IT-151R5 Line 435 in Partnerships section

**Line 440 – Sale of SR&ED capital assets and other deductions**

If you sold an SR&ED capital asset during the year (capital asset you previously claimed for SR&ED), and the amount on line 450 includes undeducted expenditures for the asset sold, enter on line 440 the lesser of:

- a) the sale proceeds; or
- b) the amount of unclaimed expenditures included on line 450 for the asset. See example below.

**Example**

**Facts:**

- Undeducted SR&ED expenditures balance carried forward from the prior year (line 450) .....\$ 500

**Asset you sold during the year:**

- Original cost .....\$1,000
- Proceeds of disposition .....\$ 100
- Unclaimed expenditures for the asset that are included in the line 450 amount.....\$ 50

**Solution:**

Determine the line 440 amount, whichever amount is less:

- Proceeds of disposition .....\$ 100
- or
- Amount of unclaimed expenditures for the asset ...\$ 50
- **Line 440 amount** .....\$ 50

If the sale proceeds are more than the unclaimed balance of SR&ED expenditures for the asset, include the difference in your income, up to the amount of recapture of CCA. If the sale proceeds are more than the original cost of the asset, the difference is either a capital gain or income, depending on the facts of each case.

Determine the recaptured CCA, whichever amount is less:

- Original cost .....\$1,000
- or
- Proceeds of disposition.....\$ 100
- Minus the line 440 amount.....\$ 50
- **Recapture of CCA (include this amount in your income for the year)** .....\$ 50

**Note**

In certain cases, other deductions may have to be made to the *pool of deductible SR&ED expenditures* (e.g. expenditures a corporation renounced for the purposes of Part VIII tax and amounts deducted for insolvency).

**References:** *Income Tax Act* section 61.3, subsections 13(1), 37(1) and 37(6), paragraphs 13(7.1)(a), 13(7)(e), 13(7.1)(f), 37(1)(b) and 37(1)(d); *Income Tax Regulation* 1102(1)(d); Interpretation Bulletin IT-151R5

**Line 445 – Repayments of government and non-government assistance**

Enter the amount of assistance repaid in the year that previously reduced your *pool of deductible SR&ED expenditures* (these amounts would have been included on lines 429 to 432 in prior years). Also, enter any amount of assistance that you applied to reduce your SR&ED expenditure *pool* balance but that you did not receive, nor do you expect to receive.

**References:** *Income Tax Act* paragraph 37(1)(c); Interpretation Bulletin IT-151R5

**Line 450 – Prior year’s pool balance of deductible SR&ED expenditures**

Enter the undeducted balance in the *pool of deductible SR&ED expenditures* that you are carrying forward from the previous year.

**Tip**

You will find the undeducted *pool* balance amount at line 470 of the prior year’s Form T661.

**Line 452 – SR&ED expenditure pool transfer from amalgamation or wind-up**

Where a corporation is amalgamated with or wound-up into another corporation, the predecessor corporation’s pool of deductible SR&ED expenditures is transferred to the successor corporation.

**References:** *Income Tax Act* subsection 37(1), paragraph 87(2)(l); Interpretation Bulletin IT-151R5

**Line 453 – Amount of ITC recaptured in the prior year**

Enter the amount of all ITC recaptured in the prior year. This will increase the amount of the *pool of deductible SR&ED expenditures* for the current year.

Generally, a recapture of ITC is triggered by the sale of a property or its conversion to commercial use, where the cost of that property was previously claimed as an SR&ED expenditure for ITC purposes.

**Tip**

For corporations, see the prior year Schedule T2 SCH 31, part 17, line OO. For Individuals, see the prior year Form T2038(IND), page 4, line (iii).

**References:** *Income Tax Act* paragraph 37(1)(c.2); SR&ED Application Policy 2000-04R2

**Line 455 – Amount available for deduction**

This amount represents the *pool* of deductible SR&ED expenditures that is available for deduction from income for the year.

If the amount is negative, enter “0”, and include the amount in your net income for tax purposes for the year. Corporations should include the amount in income on line 231 of Schedule T2 SCH 1 and individuals should include this in their self-employment income (lines 135 to 143) reported in their Individual Income Tax and Benefit Return.

*References:* *Income Tax Act* subsection 37(1), paragraphs 12(1)(v) and 37(1)(c.1)

#### Line 460 – Deduction claimed in the year

Enter the amount you wish to claim as a deduction in your net income for tax purposes in the year from the available *pool of deductible SR&ED expenditures* from line 455. You may deduct all or a portion of your expenditures for SR&ED. The balance in your *pool of deductible SR&ED expenditures* may be carried forward. The deduction is optional, and can be any amount up to the current year’s line 455.

##### Note

If you are a corporation that has undergone an acquisition of control, you might not be able to claim the total amount on line 455 in the year or in a later year.

*References:* *Income Tax Act* subsections 37(1), 37(6.1) and 37(11), paragraph 37(1)(h); Interpretation Bulletin IT-151R5

#### Line 470 – Pool balance of deductible SR&ED expenditures

This amount is your unclaimed balance of the *pool of deductible SR&ED expenditures* at the end of the year. Subject to the “Note” at line 460, you can carry forward this balance indefinitely to be deducted in future years.

*References:* *Income Tax Act* subsection 37(1); Interpretation Bulletin IT-151R5

## Part 4 – Calculation of qualified SR&ED expenditures for investment tax credit (ITC) purposes

In this part, you will determine the SR&ED expenditures that qualify for a federal ITC. You should break down your expenditures between current and capital.

Amounts included on lines 500 to 510 increase your qualified SR&ED expenditures for ITC.

#### Line 500 – Payment of prior years’ unpaid amounts (other than salary or wages)

Enter any amounts identified on line 520 in prior years that were paid in the year of this claim. For further clarification see the example on line 520.

*References:* *Income Tax Act* subsection 127(26); Interpretation Bulletin IT-151R5

#### Line 502 – Prescribed proxy amount (PPA)

Enter “0” if you use the traditional method. If you use the proxy method, you must complete Part 5 to calculate your PPA.

*References:* *Income Tax Act* subsections 37(10), 37(8) and 127(9); *Income Tax Regulations* 2900(4), 2900(6), 2900(7), 2900(8), 2900(9) and 2900(10); Interpretation Bulletin IT-151R5

#### Line 504 – Expenditures on shared-use equipment (SUE)

A partial ITC can be earned on *depreciable property* used *primarily* for the performance of SR&ED in Canada.

Shared-use treatment could apply to new equipment used for both SR&ED and non-SR&ED purposes in the two periods of 12 or 24 months after the year of acquisition. The shared-use rules are for ITC purposes only. The ITC calculation is the same regardless of whether the traditional method or the proxy method is used. The equipment does not form part of the *pool of deductible SR&ED expenditures*, but is depreciated under the regular capital cost allowance (CCA) rates and rules on Schedule T2 SCH 8.

##### Tip

The ITC refunded and/or applied to federal tax payable on *SUE* reduces the CCA class in the next tax year on Schedule T2 SCH 8.

The maximum amount on which an ITC can be earned for the acquisition of *SUE* is 50% of the capital cost of the equipment over two periods. On line 504, enter 25% of the capital cost of the equipment that was used *primarily* in SR&ED in the first period (*first term SUE*) and claim the other 25% in the second period (*second term SUE*), provided the equipment meets the requirements of both the *first* and *second term SUE*.

The equipment is considered not to have been acquired until it has become *available for use*.

The two periods are defined as *first term SUE* and *second term SUE*.

*First term SUE* is the first period beginning at the time the equipment is acquired and ending at the end of the first tax year ending at least 12 months after that time. *Second term SUE* is the second period beginning at the time the equipment was acquired and ending at the end of the first tax year ending at least 24 months after that time.

##### Tips

The *First term SUE* period can be as short as 12 months and as long as 24 months less one day (12 months and 364 days). Therefore, the expenditure is not eligible for an ITC in the year of acquisition since the equipment would not have been in use for at least 12 months.

The *Second term SUE* period can be as short as 24 months and as long as 36 months less one day (24 months and 364 days).

You should be prepared to provide documentation to substantiate the percentage of time you used the equipment for SR&ED.

##### Example

On November 30, 2005, Company A purchased a piece of new equipment for \$100,000, to be used in SR&ED and in production over its expected useful life. Company A has a June 30th year-end.

The equipment ran 8 hours a day, 5 days a week. The operating time of the equipment relating to SR&ED and to production is recorded below.

Machine Operating Log			
Period of time	Total machine hours	SR&ED hours	Production hours
Dec. 1, 2005 to June 30, 2006	1,200	1,000	200
July 1, 2006 to Nov. 30, 2006	800	600	200
Dec. 1, 2006 to June 30, 2007	<u>1,200</u>	<u>800</u>	<u>400</u>
<b>Subtotal</b>	<b>3,200</b>	<b>2,400</b>	800
July 1, 2007 to Nov. 30, 2007	800	200	600
Dec. 1, 2007 to June 30, 2008	<u>1,200</u>	<u>400</u>	<u>800</u>
<b>Total</b>	<b>5,200</b>	<b>3,000</b>	2,200

**First term SUE:** December 1, 2005 to June 30, 2007

The machine was used *primarily* in SR&ED (2,400/3,200 or 75%) for the period from the time the machine is *available for use* (December 1, 2005) to the end of the first tax year ending at least 12 months after the date of acquisition (June 30, 2007).

**Second term SUE:** December 1, 2005 to June 30, 2008

The machine was used *primarily* in SR&ED (3,000/5,200 or 58%) for the period from the time the machine is *available for use* (December 1, 2005) to the end of the second tax year ending at least 24 months after the date of acquisition (June 30, 2008).

Below is a chart showing when the qualified *SUE* expenditures can be claimed in the appropriate tax year.

Machine Number	Purchase Date	Cost	SUE June 30, 2006	SUE June 30, 2007	SUE June 30, 2008
1	Nov. 30, 2005	\$100,000	\$0	\$25,000	\$25,000
Total SUE Expenditures			\$0	\$25,000	\$25,000

Table 6 below compares equipment that is *all or substantially all (ASA)* for SR&ED (line 390 of Form T661) and *SUE* (line 504 of Form T661).

Table 6	
ASA equipment	Shared-use equipment
■ equipment intended to be used <b>ASA</b> in SR&ED throughout its useful life	■ equipment used <i>primarily</i> for SR&ED but also used for other non-SR&ED purpose
■ included in the SR&ED expenditure <b>pool</b> and earns ITC	■ earns ITC and can claim CCA (capital cost allowance)
■ ITC is earned on capital expenditures in the year of acquisition	■ you earn partial ITC over the first and second periods after acquisition
■ ITC is earned on the full cost	■ ITC is earned on one-half of the cost
■ includes <b>general-purpose office equipment or furniture</b> under the traditional method only	■ excludes <b>general-purpose office equipment or furniture</b> under both the traditional and proxy methods
■ eligibility is based on intended use	■ eligibility is based on actual use
■ must be new to earn ITC	■ must be new to earn ITC
■ must be <b>available for use</b>	■ must be <b>available for use</b>

### Lines 508 and 510 – Qualified expenditures transferred to you

If someone carries out SR&ED on your behalf and you and the other party are not dealing at *arm's length* (i.e. *non-arm's length*), your expenditures for the contract do not qualify for ITC purposes. In addition, the amount received or receivable by the performer of the SR&ED is not considered to be a *contract payment*. If you, the payer, are not dealing at *arm's length* with the performer and wish to have qualified SR&ED expenditures of the performer transferred to you, both the payer and the performer must complete and sign Form T1146, *Agreement to Transfer Qualified Expenditures Incurred in Respect of SR&ED Contracts Between Persons Not Dealing at Arm's Length*.

For more information on how to calculate the amount to be transferred from the performer to the payer, refer to Form T1146. Both the payer and the performer may be required to attach to Form T1146 certified copies of a Directors' resolution authorizing such transfer. The payer must report the agreed transferred amount from line 106 of Form T1146 to lines 508 and 510 of Form T661 and the performer must report the same amounts on lines 544 and 546 of their Form T661.

**References:** Income Tax Act subsections 127(13), 127(14) and 127(15); Interpretation Bulletins IT-151R5 and IT-419; Form T1146, *Agreement to Transfer Qualified Expenditures Incurred in Respect of SR&ED Contracts Between Persons Not Dealing at Arm's Length*.

**References:** Income Tax Act subsection 127(9); Interpretation Bulletin IT-151R5; SR&ED Application Policy 2003-01 and 2005-01



## Amounts included on lines 513-546 decrease your qualified SR&ED expenditures for ITC

### Lines 513 to 518 – Government and non-government assistance and contract payments

Your qualified expenditures are reduced by any provincial government assistance, other government assistance, non-government assistance, and *contract payments* that you have received, are entitled to receive, or can reasonably expect to receive in respect of the SR&ED on or before the filing due date for a tax year.

All assistance and *contract payments* received in respect of the SR&ED reduces the qualified SR&ED expenditures regardless of whether the traditional method or the proxy method is used.

### Line 513 and 514 – Provincial/territorial government assistance

Enter the amount of provincial/territorial government assistance. For a brief overview of what constitutes

provincial/territorial government assistance, see the explanation for line 429.

### Line 515 and 516 – Other government assistance

Enter the amount of other government assistance. For a brief overview of what constitutes other government assistance, see the explanation for line 431.

### Line 517 and 518 – Non-government assistance and contract payments

Enter the amount of non-government assistance and *contract payments*. For a brief overview of what constitutes non-government assistance, see the explanation for line 432.

#### Tip

Assistance and *contract payments* will only reduce the SR&ED expenditures for the project to which they relate. We illustrate this with the following example:

#### Example

	Project 1	Project 2	Project 3	Total for all projects	Total for all projects reported on Form T661
Allowable SR&ED expenditures	\$125	\$250	\$125	\$500	Line 511 and/or 512
<b>Less:</b>					
Provincial SR&ED tax credits	(\$100)	0	(\$50)	(\$150)	Line 513 and/or 514
Other government assistance	0	(\$50)	0*	(\$50)	Line 515 and/or 516
Non-government assistance and <i>contract payments</i>	(\$50)	0	(\$100)	(\$150)	Line 517 and /or 518
<b>Total</b>	(\$25)*	\$200	(\$25)*	\$150	If not allocated on a project by project basis, line 570 would equal \$150*
Qualified expenditures	0	\$200	0	\$200	If allocated on a project by project basis, line 570 would equal \$200

\* The excess funding of \$50 received for Projects 1 and 3 (\$25 each) does not reduce the Project 2 expenditures as a result of allocating funding on a project by project basis. The allocation of assistance on a project by project basis increases your qualified expenditures from \$150 to \$200. The \$200 is eligible for an ITC on line 570.

#### Note

If the SR&ED work on projects 1 and 3 is not completed until the next tax year, the excess assistance of \$50 received for these projects will be carried forward and applied to reduce your qualified SR&ED expenditures in the following tax year. If the SR&ED project is completed by the end of the tax year, the excess assistance need not be considered further.

*References:* Income Tax Act subsections 127(9) and 127(18) to 127(20); Interpretation Bulletin IT-151R5

### Line 520 – Current expenditures not paid within 180 days of the tax year end

Enter the amount of current expenditures (other than *salary or wages*) incurred in the year but not paid within 180 days of the tax year end. This applies to all current SR&ED expenditures (lines 320 to 370) except for unpaid *salary or wages* that are included on line 315. If you pay the expenditure in a subsequent tax year, enter the amount on line 500 of Form T661 for that year.

Although your unpaid expenditures do not qualify for ITC purposes until the time you pay them, they are still deductible SR&ED expenditures in the year you incurred the expenditure.

#### Example

Corporation A has a tax year end of December 31, 2007, and incurs SR&ED expenditures of \$100,000 for consulting fees payable to Corporation B. Corporation A still has not paid the expenditure 180 days after the end of the 2007 tax year. The expenditure is paid in September 2008.

- Corporation A must identify the expenditure on line 340 of Form T661 within the reporting deadline (within 18 months after the tax year end). It is an allowable SR&ED expenditure deductible in 2007.

- Corporation A has to enter the unpaid amount on line 520 of Form T661 for the 2007 tax year. For ITC purposes, the expenditure is considered not to have been incurred in 2007.
- When Corporation A pays the expenditure in the 2008 tax year, it has to enter the amount paid on line 500 of Form T661 for that year.

*References: Income Tax Act subsection 127(26); Interpretation Bulletin IT-151R5*

### **Line 528 – Amounts paid in respect of an SR&ED contract to a non-taxable supplier**

Enter all amounts in respect of an *SR&ED contract* paid or payable to a person or partnership that is not a *taxable supplier*.

This situation usually occurs when a payer contracts out its SR&ED to an *arm's length* performer. If the SR&ED contract expenditure is not paid or payable to or for the benefit of a *taxable supplier*, it is not a qualified expenditure for ITC purposes.

*References: Income Tax Act Subsection 127(9); Interpretation Bulletin IT-151R5; SR&ED Application Policy 2002-03*

### **Lines 530 and 532 – Prescribed expenditures not allowed by regulations**

There are certain expenditures that can be included in your *pool of deductible SR&ED expenditures* but are not allowed, by regulation, to be included in your qualified expenditures for ITC purposes. These expenditures are referred to as prescribed expenditures and the most common are:

- interest and other financing costs;
- a due or fee for membership in a scientific or technical society or organization;
- legal or accounting fees; and
- expenditures for the acquisition of used equipment.

See references below for other prescribed expenditures.

Enter the total prescribed expenditures relating to current expenditures on line 530 and those relating to capital expenditures on line 532.

*References: Income Tax Act Subsection 127(9); Income Tax Regulation section 2902; Interpretation Bulletin IT-151R5*

### **Lines 533 and 535 – Other deductions**

Enter any SR&ED expenditures incurred in the course of earning income that will **not** be subject to income tax. An ITC can only be generated when the income from the business, to which a particular expenditure relates, is subject to income tax.

*References: Income Tax Act subsection 127(9); Interpretation Bulletin IT-151R5*

### **Lines 538 to 546 – Non-Arm's Length Transactions**

#### **Lines 538 and 540 – Assistance allocated to you**

If you received assistance in excess of your expenditures for an ongoing SR&ED project and the project is performed by

members of a related group, the unapplied assistance can be allocated among the related group and this will reduce the qualified SR&ED expenditures of the members of the related group for ITC purposes. Assistance refers to government and non-government assistance and *contract payments* as defined on lines 513 to 518.

The allocation of the unapplied assistance must be completed on Form T1145, *Agreement to Allocate Assistance for SR&ED Between Persons Not Dealing at Arm's Length*. For more information refer to Form T1145. Both the recipient of the assistance and the performer may be required to attach to Form T1145 certified copies of the Directors' resolution authorizing such transfer. The Form T1145 should be filed with Form T661. The performer must report the agreed transferred amount on lines 538 and 540 of Form T661.

#### **Example**

We illustrate the allocation of assistance using the information from the example previously used for lines 513 to 518.

If in the following tax year you contract the SR&ED work for projects 1 and 3 to your subsidiary and it incurs qualified SR&ED expenditures of \$200, the excess assistance of \$50 received by you will reduce the qualified SR&ED expenditures of the subsidiary to \$150.

*References: Income Tax Act subsections 127(19), 127(20), 127(21) and 127(22), Interpretation Bulletin IT-151R5; Form T1145, Agreement to Allocate Assistance for SR&ED Between Persons Not Dealing at Arm's Length*

### **Line 541 – Expenditures for non-arm's length SR&ED contracts**

Expenditures for SR&ED performed on your behalf by a performer with whom you are not dealing at *arm's length* do not qualify for ITC. On line 541, deduct the amount you entered on line 345 for *non-arm's length SR&ED contracts*.

#### **Tip**

Expenditures you incurred for *non-arm's length* SR&ED contracts are not considered to be either qualified expenditures or a *contract payment* to the performer for ITC purposes. However, you and the *non-arm's length* performer can file Form T1146 so that all or part of the performer's qualified expenditures for SR&ED, can be transferred to you (payer) for ITC purposes. The Form T1146 should be filed with Form T661. For more details, see the explanations for lines 508 and 510.

*References: Income Tax Act subsection 127(9); Interpretation Bulletin IT-151R5*

### **Lines 542 and 543 – Purchases of goods and services from non-arm's length suppliers**

When you purchase goods or services (other than *SR&ED contracts*) from a person with whom you do not deal at *arm's length* at the time of the transaction, the amount of the eligible qualified SR&ED expenditure for ITC purposes is limited to the cost to the *non-arm's length* person who provides the goods or services.

The amount of expenditure you incur is deemed to be:

1. in the case of a service rendered to you, either the expenditure you actually incurred or the *adjusted service cost*, whichever amount is less; and
2. in the case of a property sold to you, either the capital cost to you or the *adjusted selling cost* to the supplier of the property, whichever amount is less.

Enter on lines 542 and 543 the **difference** between the amount included as *SR&ED expenditures* for the purchases of goods or services from *non-arm's length* suppliers and the deemed amount of the expenditure.

We illustrate this with the following example:

### Example

X needs a piece of equipment to do SR&ED.

X orders the equipment for \$50,000 from Y, a *non-arm's length* (NAL) party.

Y decides to build the equipment and incurs the following expenditures:

Salaries	\$20,000
<i>Materials</i>	10,000
A motor	8,000
Total	\$38,000

Y purchased the \$8,000 motor from Z, a *non-arm's length* party.

Z had purchased the same motor for \$5,000 from W, an *arm's length* party.

The *adjusted selling cost* to Y (the supplier) is:

$$\$38,000 \text{ less } [8,000 - 5,000] = \$35,000$$

The amount that X may claim for this property is the lesser of \$50,000 and \$35,000.

The adjustment required on Form T661 at line 543 to reduce the qualified expenditures to the actual cost of the goods or services is the difference between \$50,000 and \$35,000, i.e., \$15,000

### Tip

The amount of allowable SR&ED expenditures to the claimant remains at \$50,000 in the SR&ED expenditure *pool*.

*References:* *Income Tax Act* subsections 127(11.6) to 127(11.8); Interpretation Bulletins IT-151R5 and IT-419

### Lines 544 and 546 – Qualified expenditures you transferred

Enter the amount of qualified expenditures you transferred subject to the explanation under lines 508, 510 and 541.

### Line 559 – Qualified SR&ED expenditures

The total on line 559 is the qualified SR&ED expenditures for this tax year.

*References:* *Income Tax Act* subsection 127(9); Interpretation Bulletin IT-151R5

### Line 560 – Repayments of assistance and contract payments made in the year

Enter the amount of assistance and *contract payments* repaid in the year that previously reduced your qualified SR&ED expenditures (the assistance would have been included on lines 513 to 518 in prior years). Also, enter any amount of assistance that previously reduced your qualified SR&ED expenditure and for which you did not receive the amount, nor do you now expect to be receiving it.

### Tip

If you deducted assistance in a previous tax year for *shared-used equipment (SUE)*, include on line 560 any repayments of assistance for *first* and *second term SUE*.

*References:* *Income Tax Act* subsection 127(9); Interpretation Bulletin IT-151R5

### Line 570 – Total qualified SR&ED expenditures

This is your total qualified SR&ED expenditures to be used to calculate the ITC for this tax year.

To claim an ITC on this amount, use Schedule T2 SCH 31, *Investment Tax Credit – Corporations*, (Lines 557, 558 and 560 of the Form T661 are reported on lines 350, 360 and 370 of Schedule T2 SCH 31), or Form T2038(IND), *Investment Tax Credit (Individuals)*, (Line 570 of the Form T661 is reported on Line 6712 of Form T2038(IND)).

## Part 5 – Calculation of prescribed proxy amount (PPA)

In this part you will calculate the *salary base* and the *PPA*. The *PPA* is a notional amount representing your overhead and other expenditures. Complete this part only if you have elected to use the proxy method on line 160.

## Section A – Salary base

The *salary base* for the proxy method is composed of *salary or wages* of the employees who are *directly engaged in SR&ED* (from lines 300 and 307). The *salary base* also includes the directly engaged *salaries or wages* of *specified employees* entered on lines 305 and 309, but this amount may be limited.

Table 7 illustrates the differences between the expenditures for *salary or wages* you include in the SR&ED expenditure *pool* and those you include in the *salary base*.

Salary or wages	Pool of deductible SR&ED expenditures	Salary base
<i>Directly engaged salary or wages</i> excluding bonuses, remuneration based on profits, <i>taxable benefits</i> and prior years' unpaid <i>salary or wages</i> paid in the year <ul style="list-style-type: none"> <li>■ other than <i>specified employees</i></li> <li>■ for <i>specified employees</i></li> </ul>	<p><b>Yes</b> (lines 300 and 307)</p> <p><b>Yes</b>, amount is limited* (lines 305 and 309)</p>	<p><b>Yes</b></p> <p><b>Yes</b>, amount is limited**</p>
<i>Taxable benefits</i>	<b>Yes</b> (lines 300, 305, 307 and 309)	<b>No</b>
Bonuses and remuneration based on profits <ul style="list-style-type: none"> <li>■ other than <i>specified employees</i></li> <li>■ for <i>specified employees</i></li> </ul>	<p><b>Yes</b> (lines 300 and 307)</p> <p><b>No</b> (lines 305 and 309)</p>	<p><b>No</b></p> <p><b>No</b></p>
Prior years unpaid <i>salary or wages</i> paid in the tax year	<b>Yes</b> (line 310)	<b>No</b>
<i>Related benefits</i> (employer's contributions)	<b>No</b>	<b>No</b>
* limited to 5 × <i>year's maximum pensionable earnings (YMPE)</i>		
** limited to 2.5 × <i>YMPE</i> or 75% of box 852 <i>salary or wages</i> , whichever is less		

### Line 810 – Salary or wages of employees other than specified employees

Enter the amount from lines 300 and 307. This amount is the total *salary or wages* of employees *directly engaged in SR&ED*, other than *specified employees*.

### Line 812 – Bonuses, remuneration based on profits and taxable benefits

Enter the bonuses, remuneration based on profits, and *taxable benefits* that are included in the amount on line 810.

### Line 814 – Subtotal

Subtract line 812 from line 810.

### Boxes 850 to 860 – Salary or wages of specified employees

Use the chart in Part 5 of Form T661 to calculate the *salary base* of the *specified employees*.

**Box 850** – Enter the name of each *specified employee*.

**Box 852** – Enter the total *salary or wages* of the *specified employee*. This amount is 100% of the expenditure for *salary or wages* of the employee, not only the SR&ED portion. Do not include *taxable benefits*, bonuses, remuneration based on profits, or any unpaid amounts from line 310.

**Box 854** – Enter the percentage of time the *specified employee* was *directly engaged in SR&ED*, up to a maximum of 75%.

**Box 856** – Enter the total from the amount in box 852 multiplied by the percentage in box 854.

**Box 858** – Enter the maximum amount allowed for the year. To determine the maximum amount allowed for the year, use this formula:  $2.5 \times A \times B \div 365$ . In this formula, **A** is the *YMPE* for the calendar year in which your tax year ends. **B** is the number of days in the tax year that you employed the individual.

If the *specified employee* is also employed by a corporation with which you are associated, the maximum amount allowed cannot be more than  $2.5 \times A$ , minus the amount the associated corporation has included in its *salary base* for its tax year ending in the same calendar year.

Use Form T1174, *Agreement Between Associated Corporations to Allocate Salary or Wages of Specified Employees for Scientific Research and Experimental Development (SR&ED)*, to allocate *salary or wages* of *specified employees* for SR&ED between associated corporations.

**Box 860** – Enter the lesser of box 856 and box 858.

Table 8 below illustrates the rules applicable to *salary or wages of specified employees*:

<b>Table 8</b>					
<b>Illustration of rules for salaries or wages of specified employees for 2008</b>					
Box 850	Box 852	Box 854	Box 856	Box 858	Box 860
Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Name of <b>specified employee</b>	Total <b>salary or wages</b> for the year (SR&ED and non-SR&ED) excluding bonuses, remuneration based on profits, <b>taxable benefits</b> and prior years unpaid <b>salary or wages</b> paid in the year	% of time spent in SR&ED (maximum 75%)	Amount in column 2 multiplied by percentage in column 3	2.5 × A × B / 365 A = \$44,900 B = number of days employed in tax year	Amount in column 4 or 5, whichever amount is less
Employee 1	\$ 50,000	50%	\$25,000	\$112,250**	\$25,000
Employee 2	\$ 50,000	75%*	\$37,500	\$112,250	\$37,500
Employee 3	\$100,000	60%	\$60,000	\$112,250	\$60,000
Employee 4	\$100,000	75%*	\$75,000	\$112,250	\$75,000
Employee 5	\$175,000	70%	\$122,500	\$112,250	\$112,250
<b>Carry the total amount of column 6 to line 816 in Section A of Part 5</b>					<b>\$309,750</b>
* Although 80% of actual time was <b>directly engaged in SR&amp;ED</b> in Canada, enter only 75% in column 3 (maximum % allowed).					
** This is the maximum allowed for the 2008 year (as determined by the formula 2.5 × \$44,900 × 365/365, if you employed the employee for the whole year).					

**Line 816**

Enter the total of the amounts in column 6. This amount is the total amount of *salary or wages, of specified employees, directly engaged in SR&ED* that qualify to be included in the *salary base*.

**Line 818 – Salary base**

Add lines 814 and 816 to arrive at the *salary base*.

*References: Income Tax Regulations* subsections 2900(5), 2900(7), 2900(8) and 2900(9); Interpretation Bulletin IT-151R5; Form T1174, *Agreement Between Associated Corporations to Allocate Salary or Wages of Specified Employees for Scientific Research and Experimental Development (SR&ED)*; Canada Pension Plan section 18

**Section B – Prescribed proxy amount (PPA)**

**Line 820 – Prescribed proxy amount**

To calculate the *PPA*, multiply the *salary base* (line 818) by 65%. Enter the *PPA* amount on line 502 of Form T661, unless the overall cap applies.

**Overall cap on PPA** – For most claimants, the *PPA* is 65% of the *salary base*. The objective of the overall cap is to ensure that the total SR&ED qualified expenditures and *PPA* and other deductions specifically allowed under the ITA are not greater than the total business expenditures made in the year. The overall cap is calculated based on the total expenditures for tax purposes minus certain deductions allowed under other sections of the ITA. These latter deductions are specifically identified by regulation, for example capital cost allowance (CCA), SR&ED deduction per line 411 of Schedule T2 SCH 1, building rent, interest, etc. The overall cap will usually not restrict the calculated *PPA* if you deduct more than \$65 of non-SR&ED expenses (excluding the deductions specifically identified by regulation as mentioned above) for each \$100 of eligible salary included in the *salary base*.

*References: Income Tax Regulations* subsections 2900 (4) and 2900(6); Interpretation Bulletin IT-151R5

**Example**  
**Overall cap calculation**

<b>Income Statement</b>		
<b>Revenue</b>		<b>\$</b>
Sales		100,000
<b>Expenses</b>		
Cost of goods sold		
Purchases	10,000	
Ending Inventory	<u>(5,000)</u>	
Subtotal		5,000
Other Expenses		
<i>Salary or Wages*</i> (SR&ED expenditures)	40,000	
Salary or Wages – Administration	6,000	
Interest	2,000	
Utilities	2,000	
Building rent	5,000	
General administration	2,000	
Depreciation	<u>10,000</u>	
Subtotal		<u>67,000</u>
<b>Total expenses</b>		<u>72,000</u>
<b>Net Income</b>		<b>28,000</b>

**Net income (loss) for income tax purposes**  
**T2 – Schedule 1 (T2 SCH 1)**

		<b>\$</b>
<b>Net income per income statement</b>		28,000
<b>Additions on Schedule T2 SCH 1</b>		
Depreciation (line 104 of Schedule T2 SCH 1)	10,000	
<i>Salary or wages*</i> (SR&ED expenditures) (line 118 of Schedule T2 SCH 1)	<u>40,000</u>	
<b>Total additions</b>		50,000
<b>Deductions on Schedule T2 SCH 1</b>		
Capital Cost Allowance (CCA) from Schedule T2 SCH 8	5,000	
SR&ED deduction claimed in year (line 411 of Schedule T2 SCH 1)**	<u>20,000</u>	
<b>Total deductions</b>		<u>(25,000)</u>
<b>Net income for income tax purposes</b>		<b>53,000</b>

\* This amount was reported as the total current SR&ED expenditures on line 380 of Form T661.

\*\* This amount was reported as a deduction claimed in the year on line 460 of Form T661.

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## Overall cap on PPA

<b><u>Step 1: Total deductions for income tax purposes</u></b>	<b>\$</b>
Total deducted per income statement	72,000
Less: Additions per T2 SCH 1	<u>(50,000)</u>
Add: Deductions per T2 SCH 1	<u>25,000</u>
Total deductions for income tax purposes	47,000
<b><u>Step 2: Deductions allowed under other sections of the <i>Income Tax Act</i></u></b>	
Interest	2,000
CCA	5,000
SR&ED deduction claimed in year (line 411 of Schedule T2 SCH 1)	<u>20,000</u>
Total	27,000
<b><u>Step 3: Deduction for the use of a building</u></b>	
Building rent	5,000
<b><u>Overall cap summary</u></b>	
Step 1 – Total deductions for income tax purposes	47,000
Step 2 – Deductions allowed under other sections of the <i>Income Tax Act</i>	<u>(27,000)</u>
Step 3 – Deduction for the use of a building	<u>(5,000)</u>
<b>Overall cap on PPA</b>	<b>15,000</b>

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### Your PPA is the lesser of:

- |  |                 |
|--|-----------------|
| a) the SR&ED PPA per line 820 on Form T661 ( $\$40,000 \times 65\%$ ) or | \$26,000        |
| b) the overall cap on PPA as calculated above                            | <b>\$15,000</b> |

Therefore, the maximum PPA you can claim on line 502, Part 4 of Form T661 is \$15,000.

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## Part 6 – Additional Information

In this part you provide information to Statistics Canada to help them gather research and development statistics.

### Line 605 – Expenditures for SR&ED performed by you in Canada

Enter the total allowable expenditures for SR&ED performed by you. Ensure that you remove the expenditures for SR&ED performed outside Canada (lines 307 and 309), and expenditures for SR&ED performed on your behalf (lines 340 and 345) and the third-party payments (line 370), since the SR&ED work was not performed by you.

### Lines 600 to 618 – Sources of funds for SR&ED

Estimate the percentage of sources of funds for SR&ED performed within your organization for this tax year. Use the total SR&ED expenditures you entered on line 605 to estimate the percentage of distribution of the sources of funds (make sure that the total of lines 600 to 618 equals 100%).

### Line 600 – Internal funding

Enter the percentage of funds that originated from internal company funding, loans, and income tax refunds, etc., used for SR&ED you performed in this tax year.

### Lines 602 and 604 – Funding from parent companies, subsidiaries, and affiliated companies

Enter the percentage of funding received from parent companies, subsidiaries, and affiliated companies. Identify both Canadian and foreign funding.

### Line 606 – Federal grants

Enter the percentage of federal grants received for SR&ED, and the percentage of the SR&ED portion of any other federal grants received. Do not include funds or tax credits from federal SR&ED tax incentives.

### Line 608 – Federal contracts

Enter the percentage of federal contracts received for SR&ED, and the percentage of the SR&ED portion of any other federal contracts.

### Line 610 – Provincial funding

Enter the percentage of provincial funding received for SR&ED, as well as provincial SR&ED contracts and the SR&ED portion of any other provincial grants or contracts. Do not include funds or tax credits from provincial SR&ED tax incentives.

### Lines 612 and 614 – SR&ED contract work performed for other companies

Enter the percentage of amounts received for conducting SR&ED on behalf of another party, to whom you were dealing at *arm's length*. Identify both Canadian and foreign amounts received.

### Lines 616 and 618 – Other funding

Enter the percentage of funds received from universities, other levels of government, private non-profit organizations, individuals, and foreign governments. Identify both Canadian and foreign funding.

### Lines 632 to 638 – SR&ED Personnel

Enter the number of people who work on SR&ED projects based on the number of person-years or full-time equivalents (FTE).

#### Example

If out of five scientists and engineers engaged in SR&ED, one works solely on SR&ED projects and the remaining four devote only one-quarter of their working time to SR&ED, then line 632 =  $1 + \frac{1}{4} + \frac{1}{4} + \frac{1}{4} + \frac{1}{4} = 2$  people.

## Part 7 – Claim Checklist

Before sending your SR&ED claim to the CRA carefully review the checklist to ensure your claim is complete. This will help to expedite the processing of your claim.

Reference: SR&ED Application Policy 2004-02

## Part 8 – Certification

### Lines 165 and 170 – Authorization and date

Provide the name of the individual, authorized signing officer of the corporation, or authorized partner who has certified the information on Form T661 and the attachments. The CRA requires that the claim be signed and dated. However, if you are filing your SR&ED claim electronically, three items of identification—the Business Number, tax year end, and Web Access Code or EFILE On-Line number and password—make up your electronic signature, which is considered official.

### Lines 175 – Name of person/firm who completed this form

Enter, if applicable, the name of the person/firm or representative who helped you complete this form.

## Partnerships

There are special requirements that apply to partnerships that sometimes differ from the general requirements. This section outlines the information the CRA needs in order to process an SR&ED claim where the SR&ED is performed by a partnership. This section also provides a line-by-line explanation for each line item of Form T661 that differs from the general requirements.

### SR&ED expenditures – Form T661

A partnership's SR&ED expenditures must be deducted in the calculation of the partnership's income in the year they are incurred. A partnership will not have a pool of SR&ED expenditures to carry forward to future years, and the partners cannot include any portion of the partnership's SR&ED expenditures in their *pool* of deductible SR&ED expenditures. As a result, the partners do not include any of

the partnership's SR&ED expenditures on their Form T661 filed for their corporate or personal SR&ED business.

Since the SR&ED expenditures are deducted at the partnership level only, the partnership is required to file the Form T661. The SR&ED expenditures on Form T661 are the total SR&ED expenditures of the partnership, and not just a particular partner's share of those expenditures.

### Investment tax credits – Schedule T2 SCH 31 or Form T2038(IND)

At the end of the fiscal period, a partnership will generally allocate the investment tax credit (ITC) earned to its partners. To claim the ITC of the partnership, each of the partners need to file Schedule T2 SCH 31 or Form T2038(IND). Since the partnership cannot claim any ITC for the year, the partnership does not need to file a Schedule T2 SCH 31 or Form T2038(IND). However, the partnership should provide schedules showing the calculation and allocation of the ITC of the partnership to its partners.

As mentioned above, the ITC is calculated at the partnership level and then allocated to the partners based on their partnership interest. However, an ITC earned on qualified SR&ED expenditures cannot be allocated to a partner who is a specified member.

### SR&ED filing requirements for partnerships and partners

The filing requirements of the partnerships and partners differ depending on whether or not a Form T5013 Summary, *Information Return of Partnership Income* is filed by the partnership. A partnership that carries on a business in Canada, or a Canadian partnership with Canadian or foreign operations or investments, has to file a Form T5013 Summary, *Information Return of Partnership Income* if it had six or more partners at any time during the fiscal period. For a complete explanation of the requirements for filing the T5013, see the T4068, *Guide for the T5013 Partnership Information Return*.

If Form T5013 Summary, *Information Return of Partnership Income* is filed, the partnership should file the following documents:

- Form T661 of the partnership
- Financial statements of the partnership
- Schedule showing the calculation and allocation of the ITC of the partnership to its partners
- T5013 Summary, *Information Return of Partnership Income*
- T5013, *Statement of Partnership Income*, for all the partners

File the above on or before the filing deadline for the partnership (refer to the T4068, *Guide for the T5013 Partnership Information Return* for filing deadlines for partnerships) and send it to:

Specialized Programs Unit  
Ottawa Technology Centre,  
875 Heron Road  
Ottawa ON K1A 1A2



The partners should file the following documents:

- Schedule T2 SCH 31 or Form T2038 (IND)
- T5013, Statement of Partnership Income

File your Schedule T2 SCH 31 with your T2 Corporation Income Tax (T2) Return or Form T2038 (IND) with your T1 Individual Income Tax and Benefit Return and T5013, *Statement of Partnership Income* at the Tax Centre that normally processes your return on or before the partners' respective reporting deadline.

**If Form T5013 Summary, Information Return of Partnership Income is not filed**, the partnership does not need to file any documents. However, the partners should submit:

- Form T661 for the partnership
- Financial statements of the partnership
- Schedule showing the calculation and allocation of the ITC of the partnership
- Schedule T2 SCH 31 or Form T2038(IND)

File the above information with your T2 Corporation Income Tax (T2) Return or T1 Individual Income Tax and Benefit Return at the Tax Centre that normally processes your return on or before the partners' respective reporting deadline.

## Example

### Calculation and allocation of the ITC of the Partnership

#### Calculation of the ITC

#### ABC Partnership files a Form T661 for taxation year 2008

Qualified expenditures reported on line 570 of Form T661	\$ 345,800
ITC rate	<u>× 20%</u>
Total ITC earned	\$ 69,160

#### Allocation of ITC earned for taxation year 2008 to the partners

#### ABC Partnership has the following two partners:

Partner D – 60% partnership interest

Partner E – 40% partnership interest

#### Corporation:

Partner D	\$ 69,160 × 60%	\$ 41,496
Partner E	\$ 69,160 × 40%	\$ 27,664

Include on line 550 of the partner's Schedule T2 SCH 31

or

#### Individual:

Partner D	\$345,800 × 60%	\$ 207,480
Partner E	\$345,800 × 40%	\$ 138,320

Include on line 6712 of Form T2038 (IND) to calculate 20% ITC

*References: Income Tax Act* subsections 96(1), 127(8), 127(12), 127(12.1) and 248(1); *Income Tax Regulations* 229(1) to (6); Interpretation Bulletin IT-151R5; Information circulars IC89-5R and IC89-5RSR; SR&ED Application Policy 2004-02; T4068, Guide for the T5013 *Partnership Information Return*

## Form T661 – Line-by-line explanations for Partnerships

### Line 010 – Name of claimant and tax year

Enter the name of the partnership. Do not enter the name of the partners.

Enter the fiscal year of the partnership. Do not enter the tax year of the partners.

### Lines 151 to 157 – Partnership information

**Line 151** – Indicate whether or not Form T5013 Summary, *Information Return of Partnership Income* was filed.

### Lines 153 to 157

(Complete these lines only if you responded "No" at line 151.)

Enter the name of each partner, percentage of partnership interest in ITC and the business number or social insurance number.

### Line 160 and 162 – Choice of method

**Line 160** – If you are a member of a partnership that elects to use the proxy method, the election is only valid if you made it on behalf of all the members of the partnership and you, as an authorized partner, have the authority to act for the partnership. In other words, all the partners must be in agreement to use the proxy method.

**Line 162** – If you are a member of a partnership that chooses to use the traditional method, the choice is only valid if you made it on behalf of all the members of the partnership and you, as an authorized partner, have the authority to act for the partnership. In other words, all the partners must be in agreement to use the traditional method.

**Line 435 – SR&ED ITC applied and/or refunded in the prior year**

For partnerships, you have to reduce the balance in the *pool of deductible SR&ED expenditures* by the amount of ITC earned in the **same year** the partnership makes the related SR&ED expenditures.

**Line 450 – Prior year’s pool balance of deductible SR&ED expenditures**

For a partnership, enter “0.”

**Line 460 – Deduction claimed in the year**

Claim the total amount from line 455 because the partnership cannot carry forward SR&ED expenditures to a subsequent year.

**Line 470 – Pool balance of deductible SR&ED expenditures**

For a partnership, enter “0”.

**Lines 508, 510, 544 and 546 – Transfer of non-arm’s length qualified expenditures**

A partnership cannot transfer or receive *non-arm’s length* qualified expenditures.

# Appendix 1 – Field of science or technology codes

Please refer to line 206 in Part 2 of this Guide.

1. Natural and formal sciences			
Codes		Codes	
	<b>Mathematics</b>		<b>Biological sciences</b>
1.01.01	Pure mathematics	1.06.01	Cell biology, microbiology & virology
1.01.02	Applied mathematics	1.06.02	Biochemistry, molecular biology & Biochemical research
1.01.03	Statistics and probability		
	<b>Computer and information sciences</b>	1.06.03	Mycology
1.02.01	Computer sciences	1.06.04	Biophysics
1.02.02	Information technology and bioinformatics (Software engineering and technology under 2.02.09) (hardware development under 2.02.08)	1.06.05	Genetics and heredity (medical genetics under code 3)
	<b>Physical sciences</b>	1.06.06	Reproductive biology (medical aspects under code 3)
1.03.01	Atomic, molecular and chemical physics	1.06.07	Developmental biology
1.03.02	Interaction with radiation	1.06.08	Plant sciences & botany
1.03.03	Magnetic resonances	1.06.09	Zoology, ornithology, entomology & Behavioural sciences biology
1.03.04	Condensed matter physics		
1.03.05	Solid state physics & superconductivity	1.06.10	Marine biology, freshwater biology & limnology
1.03.06	Particles and fields physics	1.06.11	Ecology & biodiversity conservation
1.03.07	Nuclear physics	1.06.12	Biology (theoretical, thermal, cryobiology, biological rhythm)
1.03.08	Fluids and plasma physics (including surface physics)	1.06.13	Evolutionary biology
1.03.09	Optics (including laser optics and quantum optics)		
1.03.10	Acoustics	1.07.01	<b>Other natural sciences</b>
1.03.11	Astronomy (including astrophysics, space science)		
	<b>Chemical sciences</b>		
1.04.01	Organic chemistry		
1.04.02	Inorganic and nuclear chemistry		
1.04.03	Physical chemistry, polymer science & plastics		
1.04.04	Electrochemistry (dry cells, batteries, fuel cells, metal corrosion, electrolysis)		
1.04.05	Colloid chemistry		
1.04.06	Analytical chemistry		
	<b>Earth and related Environmental sciences</b>		
1.05.01	Geosciences, multidisciplinary		
1.05.02	Mineralogy & paleontology		
1.05.03	Geochemistry & geophysics		
1.05.04	Physical geography		
1.05.05	Geology & volcanology		
1.05.06	Environmental sciences		
1.05.07	Meteorology, atmospheric sciences & climatic research		
1.05.08	Oceanography, hydrology & water resources		

## 2. Engineering and technology

Codes		Codes	
	<b>Civil engineering</b>		<b>Environmental engineering</b>
2.01.01	Civil engineering	2.07.01	Environmental and geological engineering
2.01.02	Architecture engineering	2.07.02	Petroleum engineering (fuel, oils)
2.01.03	Municipal and structural engineering	2.07.03	Energy and fuels
2.01.04	Transport engineering	2.07.04	Remote sensing
	<b>Electrical engineering, Electronic engineering &amp; Information technology</b>	2.07.05	Mining and mineral processing
		2.07.06	Marine engineering, sea vessels & ocean engineering;
2.02.01	Electrical and electronic engineering		<b>Environmental biotechnology</b>
2.02.02	Robotics and automatic control	2.08.01	Environmental biotechnology
2.02.03	Micro-electronics	2.08.02	Bioremediation
2.02.04	Semiconductors	2.08.03	Diagnostic biotechnologies in environmental management (DNA chips & biosensing devices)
2.02.05	Automation and control systems		<b>Industrial biotechnology</b>
2.02.06	Communication engineering and systems	2.09.01	Industrial biotechnology
2.02.07	Telecommunications	2.09.02	Bioprocessing technologies
2.02.08	Computer hardware and architecture	2.09.03	Biocatalysis & fermentation
2.02.09	Software engineering and technology	2.09.04	Bioproducts (products that are manufactured using biological material as feedstock)
	<b>Mechanical engineering</b>	2.09.05	Biomaterials (bioplastics, biofuels, bioderived bulk and fine chemicals, bio-derived materials)
2.03.01	Mechanical engineering		<b>Nano-technology</b>
2.03.02	Applied mechanics	2.10.01	Nano-materials (production and properties)
2.03.03	Thermodynamics	2.10.02	Nano-processes (applications on nano-scale)
2.03.04	Aerospace engineering		<b>Other engineering and technologies</b>
2.03.05	Nuclear related engineering (nuclear physics under 1.03.07)	2.11.01	Food and beverages
2.03.06	Acoustical engineering	2.11.02	Oenology
2.03.07	Reliability analysis and non-destructive testing	2.11.03	Other engineering and technologies
2.03.08	Automotive and transportation engineering and manufacturing		
2.03.09	Tooling, machinery and equipment engineering and manufacturing.		
2.03.10	Heating, ventilation and Air conditioning engineering and manufacturing		
	<b>Chemical engineering</b>		
2.04.01	Chemical engineering (plants, products)		
2.04.02	Chemical process engineering;		
	<b>Materials engineering</b>		
2.05.01	Materials engineering & metallurgy		
2.05.02	Ceramics		
2.05.03	Coating and films (including packaging and printing)		
2.05.04	Plastics, Rubber and Composites (including laminates and reinforced plastics)		
2.05.05	Paper and wood & textiles		
2.05.06	Construction materials (organic and inorganic)		
	<b>Medical engineering</b>		
2.06.01	Medical and biomedical engineering		
2.06.02	Medical laboratory technology (Biomaterials under 2.09.05)		

### 3. Medical and Health sciences

Codes		Codes	
	<b>Basic medicine</b>		<b>Health sciences</b>
3.01.01	Anatomy & morphology (plant science under 1.06.08)	3.03.01	Health care sciences & nursing
3.01.02	Human genetics	3.03.02	Nutrition & dietetics
3.01.03	Immunology	3.03.03	Parasitology
3.01.04	Neurosciences	3.03.04	Infectious diseases & epidemiology
3.01.05	Pharmacology and pharmacy & medicinal chemistry	3.03.05	Occupational health
3.01.06	Toxicology		<b>Medical biotechnology</b>
3.01.07	Physiology & cytology	3.04.01	Health-related biotechnology
3.01.08	Pathology	3.04.02	Technologies involving the manipulation of cells, tissues, organs or the whole organism
	<b>Clinical medicine</b>	3.04.03	Technologies involving identifying the functioning of DNA, proteins and enzymes
3.02.01	Andrology	3.04.04	Pharmacogenomics, gene-based therapeutics
3.02.02	Obstetrics and gynaecology	3.04.05	Biomaterials (related to medical implants, devices, sensors)
3.02.03	Paediatrics		<b>Other medical sciences</b>
3.02.04	Cardiac and cardiovascular systems	3.05.01	Forensic science
3.02.05	Hematology	3.05.02	Other medical sciences
3.02.06	Anaesthesiology		
3.02.07	Orthopaedics		
3.02.08	Radiology & nuclear medicine		
3.02.09	Dentistry, oral surgery and medicine		
3.02.10	Dermatology, venereal diseases & allergy		
3.02.11	Rheumatology		
3.02.12	Endocrinology and metabolism & gastroenterology		
3.02.13	Urology and nephrology		
3.02.14	Oncology		

### 4. Agricultural sciences

Codes		Codes	
	<b>Agriculture, Forestry, and Fisheries</b>		<b>Veterinary science</b>
4.01.01	Agriculture	4.03.01	Veterinary science (all)
4.01.02	Forestry		<b>Agricultural biotechnology</b>
4.01.03	Fisheries and Aquaculture	4.04.01	Agricultural biotechnology & food biotechnology
4.01.04	Soil science	4.04.02	Genetically Modified (GM) organism technology & livestock cloning
4.01.05	Horticulture	4.04.03	Diagnostics (DNA chips and biosensing devices)
4.01.06	Viticulture	4.04.04	Biomass feedstock production technologies
4.01.07	Agronomy	4.04.05	Biopharming
4.01.08	Plant breeding & plant protection (Agricultural biotechnology under 4.04.01)		<b>Other agricultural sciences</b>
	<b>Animal and Dairy science</b>		
4.02.01	Animal and dairy science		
4.02.02	(Animal biotechnology under 4.04.01) Animal husbandry	4.05.01	

#### The following fields of science are specifically excluded by law for the purposes of SR&ED:

##### Social sciences

- Psychology (Psychological research may be eligible as a support activity)
- Sociology
- Social and economic geography
- Economics and Business
- Law
- Media and communications
- Educational sciences
- Political science
- Other social sciences

##### Humanities:

- History and Archaeology
- Arts
- Languages and Literature
- Other Humanities
- Philosophy, Ethics and Religion

## Appendix 2 – Documentation and other evidence to support your SR&ED claim

It is important to maintain supporting evidence (e.g. information, records, documentation) to substantiate that the scientific research or experimental development (SR&ED) work was performed and allowable expenditures have been incurred. The business environment in which SR&ED is carried out will influence the nature and sources of evidence that are available to support the SR&ED claim. If your SR&ED claim is selected for review, you will be asked during the review to support your claim by providing evidence that was generated as the SR&ED was being carried out. Work for which you have no relevant supporting evidence will likely be disallowed.

The following sections are provided to help you identify the type of documentation and other items the CRA reviewers generally consider as supporting evidence. However, the lack of documentary information should not discourage you from making an SR&ED claim or be considered as an indication that SR&ED did not take place, particularly in the case of first-time claimants. In such a case, the CRA may be consulted to help claimants identify the type of supporting information needed to support the SR&ED work and the related expenditures.

### Supporting the SR&ED Work Claimed

Most often, supporting evidence is in the form of *contemporaneous documents* (i.e. documents generated as the SR&ED was being carried out). In fact, *contemporaneous documentation* that is dated, signed and specific to the work performed is the best supporting evidence that you can provide. If you choose to substantiate the work performed using other evidence, you must ensure that the evidence clearly addresses the questions on Part 2 of Form T661.

Table 1 in this Appendix provides a list of examples of documentation and other items that you could use as supporting evidence. Note that the table is only meant to be a tool to help you identify the type of supporting evidence you have to support your claim and to organize your documentation should your claim be selected for review. It is important to note that:

1. The table is **not** a checklist to determine eligibility of work as SR&ED. That is, the existence of supporting evidence as listed in the table does not by itself indicate the work is SR&ED. It is the content of that supporting evidence that will determine if the evidence is relevant.
2. The table is not an exhaustive list; other forms of supporting evidence may be relevant.
3. It is **not** expected that all of the supporting evidence listed in the table would be generated for every SR&ED project. However, some form of relevant supporting evidence must be available to address the questions on Part 2 of Form T661.

### Supporting the SR&ED Expenditures Claimed

You are required to keep complete and organized records that support the expenditures claimed. Requirements for records needed to support financial transactions are set out in the publication RC4409, *Keeping Records*. Typical financial records and documents that may be requested during the financial review include the financial statements and records, ledgers, journals and vouchers. Source documents such as receipts, contracts and general correspondence may also be requested.

In addition to the above general financial records, SR&ED claimants must keep any related documentation and information to support the specific expenditures claimed on Form T661. This includes but is not limited to:

- Cost breakdown per project for each line item in Part 3 Section B of Form T661;
- Cost allocation method used to allocate labour and overhead expenditures to SR&ED;
- Time sheets that support the *salary or wages* claimed by employees on SR&ED activities;
- Contracts and/or agreements related to the SR&ED claim;
- Logbooks or other documentation that support the SR&ED use of equipment for the period;
- Documentation to support third-party payments such as to whom and for what the payments were made;
- Supporting schedules such as reconciliation of amounts on Form T661 to the financial statements;
- Supporting schedules to reconcile capital expenditures on Schedule T2SCH8, *Capital Cost Allowance*, and Form T661 to the financial statements;
- Schedules to support the amount of the recapture of ITC amount; and
- Provincial/territorial income tax returns, if applicable.

### Other Considerations

Maintaining appropriate supporting evidence will facilitate the review of your claim and help you to substantiate your claim. This is especially important in work environments where both SR&ED and commercial work are taking place. For example, using the project records you have, you should be able to explain and/or demonstrate:

- Who did the work claimed and how much time employees spent on SR&ED work;
- Why the work claimed was necessary in order to achieve the *technological advance* sought;
- How *materials* were used, the quantities consumed or transformed in SR&ED work, and how *materials* and products were ultimately disposed of;

- In the case of contracts and/or agreements relating to claimed work, what services or products were provided, who performed the work, where the work took place, as well as who acquired rights to any intellectual property resulting from that work; and
- How the project costs that are attributable to SR&ED work are segregated from those that are for non-SR&ED work where the SR&ED is carried out in a commercial environment.

**Table 1 – Examples of supporting evidence  
Using the Table**

1. The table is intended to help you identify evidence that supports each of your claimed projects. Therefore, you may wish to complete a table for each project.
2. The first column lists some examples of supporting evidence that you may have.

3. Each of the five remaining columns corresponds to questions from different lines in Part 2 of Form T661. For each column:
  - a) Identify the supporting evidence you possess that best addresses the question in that column (e.g. by placing a check mark in the box). More than one type of supporting evidence could be checked off in each column. A shaded box means that generally this type of supporting evidence does not apply to the question in the corresponding column.
  - b) If you have supporting evidence that is not listed in the table, identify it in the row labeled “Others”
4. Since this table is only intended to be an aid, you do not have to complete it nor do you have to submit it with your claim. However, you may wish to keep it with your project records. Should your claim be selected for review, you will most likely be asked to provide the supporting evidence to the CRA reviewer. Completing the table may help both you and the CRA reviewer identify the supporting evidence.

**Table 1**  
**Examples of evidence to support the SR&ED work claimed**

Supporting evidence	Scientific or technological advancement sought	Technological obstacles	Work done: experimentation, analysis, support work, progress	Start and end dates	Employees or people involved
	<i>T661 lines 240 and 250</i>	<i>T661 line 242</i>	<i>T661 lines 244 and 252</i>	<i>T661 lines 202 and 204</i>	<i>T661 lines 260 and 268</i>
Project planning documents					
Records of resources allocated to the project, time sheets					
Design of experiments					
Design documents, computer-aided design (CAD) and technical drawings					
Project records, laboratory notebooks					
Design, system architecture, and source code (software development)					
Records of trial runs					
Project progress reports					
Minutes of project meetings					
Test protocols, test data, test results					
Analysis of test results, conclusions					
Final project report or professional publications					
Photographs and videos					
Prototypes, samples					
Scrap, scrap records					
Contracts					
Others					



## Glossary

**Adjusted selling cost** – is the tracing of the costs incurred by *non-arm's length* (NAL) parties in providing a property. The cost to the party performing the SR&ED will be the cost paid for by the NAL party who acquired the property at *arm's length*. There will be no inter-company profit included in the cost of the property to the performer.

**Adjusted service cost** – is the tracing of the costs incurred by *non-arm's length* (NAL) parties in rendering a particular service. The cost to the party performing the SR&ED will be the cost paid for by the NAL party who rendered the particular service to the performer or who acquired the particular service at *arm's length*. There will be no inter-company profit included in the cost of the service to the performer.

**All or substantially all (ASA)** – means 90% or more.

**Applied research** – is work undertaken to advance scientific knowledge with a specific practical application in view. This type of research advances the current understanding of scientific principles, methodologies or relations.

**Arm's Length** – refers to a situation that exists where two parties that deal with each other are not related to each other, no control exists between them, nor does one party have a beneficial (financial) interest in the other.

**Available for use** – generally, an asset is considered to become available for use and eligible for capital cost allowance and investment tax credit at the earliest of:

- the time at which the property is first used by the claimant for the purpose of earning income; or
- the time the property is delivered or is made available to the claimant and is capable of producing a saleable product or service.

**Basic research** – is work undertaken to advance scientific knowledge without a specific practical application in view. This type of research is done purely to advance the current understanding of scientific principles, methodologies or relations.

**Commercial plant** – means a facility used for commercial purposes. Plants may sometimes be built to a commercial scale, or existing commercial plants may be modified to test and demonstrate new processes. These plants are not "*pilot plants*." However, *technological advancement* may be sought, and eligible SR&ED may be involved in developing what will eventually be a commercial facility.

**Contemporaneous documentation** – documents created at the time when the SR&ED work was done, and produced as a result of performing such work.

**Contract payment** – is usually an amount a claimant receives from a person (individual, corporation or partnership) who is a *taxable supplier* for performing SR&ED, where the SR&ED is performed for, or on behalf of a person in Canada, when the claimant and that person are dealing at *arm's length* when the SR&ED is performed.

A contract payment is also an amount a claimant receives from a Canadian government, municipality, other

Canadian public authority or from certain persons exempt from tax, to perform SR&ED on its behalf.

The key element in determining if an amount is a contract payment is whether the payer requested the contractor to perform SR&ED on his or her behalf under the contract terms.

**Depreciable property** – is any property which has an expected useful life and/or benefit of more than 12 months and on which you can claim capital cost allowance. The cost of this property is amortized over a period of tax years.

**Directly attributable** – to meet the SR&ED program requirements, an expenditure claimable on line 360 (traditional method only) must be directly attributable to the performance, or to the provision of premises, facilities or equipment for the performance of SR&ED.

Expenditures directly attributable to the performance of SR&ED include the portion of *salary or wages* of employees who directly undertake, supervise or support the performance of SR&ED (other than directly engaged *salary or wages* included on lines 300 to 309).

For more details see paragraph 2900(2)(b) of the Regulations.

Expenditures directly attributable to the provision of premises, facilities or equipment for the performance of SR&ED include the cost of the maintenance and upkeep of such premises, facilities or equipment.

For more details see paragraph 2900(3)(a) of the Regulations.

To be claimable as directly attributable to the performance of SR&ED on line 360, all other expenditures (or portion) must satisfy two tests:

1. they must be *directly related* to the performance of SR&ED; and
2. the expenditure would not have been incurred had such prosecution not occurred. In other words the expenditure is *incremental* to the SR&ED.

For more details see paragraphs 2900(2)(c) and 2900(3)(b) of the Regulations.

Table 5 in this guide illustrates the above rules.

**Directly engaged in SR&ED** – refers to "hands on" work. Whether an employee is directly engaged in SR&ED is based on the tasks that are performed and not on the job title of the employee. For a list of tasks to be considered as "directly engaged", see table 3 in this guide.

**Directly related** – the work performed by a particular employee must connect with (i.e., "be related to") the SR&ED work.

**Experimental development** – is work undertaken to achieve a *technological advancement*, for the purpose of creating new materials, devices, products or processes, or improving existing ones even if the attempted improvement is not substantial.

### First term shared-use equipment

The equipment:

- must be new *depreciable property*;
- must not be *all or substantially all (ASA)* used in SR&ED;
- must not be an asset that is *prescribed depreciable property (PDP)*;
- must not be *general-purpose office equipment and furniture (GPOEF)*; and
- must be equipment that is used *primarily* for SR&ED in Canada during its operating time in the period that begins when the property is acquired and *available for use* and ends at the end of the tax year that is at least 12 months after that time.

**General-purpose office equipment or furniture (GPOEF)** – includes all furniture, such as desks, chairs, lamps, filing cabinets, and bookshelves. It also includes photocopiers, fax machines, telephones, pagers, and calculators.

Computers, including hardware, software, and ancillary equipment, are **not** considered to be general-purpose office equipment or furniture.

**Incremental** – means that the expenditure would not have been incurred if SR&ED had not occurred.

**Initial review** – this is a process where the CRA conducts a desk review of all the information submitted with the claim to determine if the claim can be processed as filed or be subjected to a detailed review. The decision is solely based on the information submitted with the claim.

**Key individuals** – are individuals who are directly involved in the project and are essential to the progress of the project. These are individuals who will have a good understanding of the scientific or technological aspects of the project.

**Materials** – with regard to SR&ED, this term generally refers to all the raw materials, substances or other items that compose the body of a thing at a given moment in the SR&ED process.

To be able to claim the costs, the material must have been consumed or transformed as a result of the SR&ED performed.

**Materials consumed** – means that you destroyed the *materials* or rendered them virtually valueless as a result of the SR&ED.

**Materials transformed** – means *materials* that have been incorporated into other *materials* or products that have some value either to the claimant or to another party.

**Non-Arm's Length** – refers to a situation where two parties that deal with each other are related to each other, one party exerts control over the other, or one party has beneficial (financial) interests in the other.

**Pilot plant** – a pilot plant is a facility where processing steps are systematically investigated under conditions simulating a full production unit.

The primary purpose of a pilot plant is to obtain engineering and other data needed to evaluate hypotheses, develop product or process formulae, establish product technical specifications, or design special equipment and structures required by a new or improved fabrication process.

For projects involving the development of a plant that will eventually be a commercial facility or the modification of an existing *commercial plant*, refer to *commercial plant* in this glossary.

**Pool** – a tax mechanism whereby an amount is calculated by identifying additions and reductions to the balance. A negative balance is usually brought into income, and a positive balance (or portion thereof) may usually be deducted from income.

**Pool of deductible SR&ED expenditures** – it is possible to *pool* expenditures of a current and capital nature on SR&ED carried out in Canada, and deduct them when calculating the income from a business you carried on in the year you made the expenditure or in any later year. For more details, see Interpretation Bulletin IT-151R5.

**Prescribed depreciable property** – is defined as being a:

- 1) building;
- 2) leasehold interest in a building;
- 3) property of the claimant if, at the time of acquisition, the claimant, or a person related to the claimant, intended that;
  - a) it would be used in the performance of SR&ED during the assembly, construction or commissioning of a facility, plant or line for commercial manufacturing, commercial processing or other commercial purposes (other than SR&ED); and
  - b) it would be used during its expected useful life *primarily* for purposes other than SR&ED, or its value would be consumed *primarily* in activities other than SR&ED;
- 4) part of a property described in 3.

Items 1 and 2 are designed to prevent the cost of acquiring buildings and leasehold interests in buildings from being claimed as SR&ED.

Items 3 and 4 are designed to prevent a facility, a plant or a line that is going to be used for commercial manufacturing or commercial processing from being treated as *shared use equipment (SUE)* even if it is used *primarily* for SR&ED in the first and second term periods.

**Prescribed information** – is all the information requested on Form T661 as well as Forms T1263, T1145, T1146, T1174 and either Schedule T2 SCH 31 or Form T2038(IND), including all attachments requested on the forms and any other document supporting your SR&ED expenditures.

**Prescribed proxy amount (PPA)** – is a notional amount on which ITC can be earned with respect to overheads (and other expenditures). It is calculated as 65% of a *salary base*. The *PPA* is only applicable when the claimant elects to use the proxy method.

The *PPA* is used in lieu of actual SR&ED overhead expenditures in calculating qualified SR&ED expenditures to earn ITC. The *PPA* is not included in the SR&ED expenditure *pool*.

With the proxy method, actual SR&ED overhead expenditures can be deducted from business income as operating expenses.

**Primarily** – for SR&ED purposes, this term means more than 50% of the time but less than 90%.

**Qualified individuals** – are personnel who have qualifications and/or experience in science, technology or engineering. The qualifications and experience must be relevant to the science or technology involved in the projects claimed.

**Related benefits** – are the employer's share of payments to the Canada Pension Plan (CPP) or Québec Pension Plan (QPP), Employment Insurance (EI), the Worker's Compensation Board (WCB), or the Commission de la santé et de la sécurité du travail du Québec (CSST), an approved employee pension plan, and employee medical, dental, or optical insurance plans.

**Salary base** – is the portion of *salaries or wages* of employees who are *directly engaged in SR&ED* that is related to such work. It is based on the time these employees spent on performing SR&ED. However, the salary base cannot include *taxable benefits*, remuneration based on profits, or bonuses, nor an expenditure identified on line 310 of Form T661.

In addition, the amount of *salary or wages* that you can take into account may be further restricted for a *specified employee*.

**Salary or wages** – the salary or wages of an employee includes vacation pay, statutory holiday pay, sick leave pay, and *taxable benefits*. These amounts must be paid to or incurred for the employees in the year.

Since you have to incur the expenditure to claim it as SR&ED, do not include benefits for which you have not incurred an expenditure, such as interest-free loans.

Do not include an expenditure for *related benefits* (as defined in this glossary) as salary or wages.

Do not include an expenditure for extended vacation or extended sick leave as salary or wages. We consider extended leave to be longer than the usual annual leave earned by the employee.

The definition of salary or wages does not include the amounts paid to employees as a retiring allowance.

**Scientific research** – is work undertaken to advance scientific knowledge with or without a specific application in view. Scientific research encompasses both *Basic Research* and *Applied Research* as defined in this Glossary.

#### **Second term shared-use equipment**

The equipment:

- must meet the requirements of *first term shared-use equipment*; and
- must be *primarily* used in SR&ED in Canada during its operating time in the period that begins when the

property is acquired and *available for use* and ends at the end of the tax year that is at least 24 months after that time.

**Shared-use equipment (SUE)** – an ITC can be earned on a portion of the cost of equipment used *primarily* for the performance of SR&ED. To earn an ITC, the equipment must qualify as *First term shared-use equipment* and/or *Second term shared-use equipment*

**Specified employee** – is an employee who does not deal at *arm's length* with the employer or who is a specified shareholder of the employer. A specified shareholder is a person who owns directly or indirectly, at any time during the year, 10% or more of the issued shares of any class of the capital stock of the employer or of any corporation related to the employer. A specified employee could also be someone related to a specified shareholder (e.g. a sister, a brother, a spouse, etc.).

**SR&ED contract** – is a contract for the performance of *basic research, applied research, experimental development* or support work (work described in paragraph (d) of the definition of SR&ED) on your behalf.

**Systematic investigation or search** – a systematic investigation or search entails going from identification and articulation of the scientific or *technological obstacles/uncertainties*, hypothesis formulation, through testing by experimentation or analysis, to the statement of logical conclusions. In a business context, this requires that the objectives of the *scientific research* or *experimental development* work must be clearly stated at an early stage in the evolution of the project, and the method of *addressing the scientific or technological obstacle/uncertainty* by experimentation or analysis must be clearly set out.

**Taxable benefits** – are benefits or allowances an employer provides to its employees that are taxable under the *Income Tax Act*. For example: automobile benefits; housing, board, and meals; gifts and awards; interest-free or low-interest loans; group term life insurance policies; and tuition fees.

**Taxable supplier** – usually means a person (individual or corporation) resident in Canada, a Canadian partnership, a non-resident person, or partnership that is not a Canadian partnership, which pays or receives the amount in the course of carrying on a business through a permanent establishment in Canada.

**Technological advancement** – means the generation of information or the discovery of technical knowledge that advances the understanding of the underlying technologies. Seeking a technological advancement means attempting to increase the *technology base or level* of the company from where it was at the beginning of the *systematic investigation or search* by experiment or analysis.

#### **Tip**

Achieving the novelty, innovation, uniqueness, feature enhancement or increased functionality of the product or the process may not in itself represent technological advancement.

**Technology base or level** – is the existing state of the technology. It embodies knowledge from **both** of the following sources:

- 1) All the technological resources within the business, which include the existing level of technology, the proprietary technological “know-how,” and education, training and experience of the personnel.
- 2) All the knowledge on the technology that can be gained from publicly and readily available sources. Publicly and readily available sources generally include published scientific papers, industry specific publications, journals, textbooks and internet based information sources.

**Technological obstacles/uncertainties** – are shortcomings and/or limitations of the current state of technology that prevented you from developing the new or improved capability. This implies that you cannot know whether the technological goals can be achieved at all or the route by which they can be achieved without undertaking a program of *experimental development*. Technological obstacles/uncertainties are the technological problems or unknowns that cannot be overcome by applying the techniques, procedures and data that are generally accessible to competent professionals in the field.

Whether or not you were successful in achieving your technological goals is not sufficient to demonstrate that a technological obstacle/uncertainty exist.

Uncertainty related to business or commercial success or failure is not a technological obstacle/uncertainty.

**Year’s maximum pensionable earnings (YMPE)** – the YMPE is determined for purposes of the Canada Pension Plan. To obtain the YMPE for each year, use the following link: [www.cra.gc.ca/limits](http://www.cra.gc.ca/limits).

## Tax services offices

The CRA delivers the SR&ED Program through ten co-ordinating tax services offices.

Co-ordinating tax services offices		For tax services offices in
<b>Nova Scotia</b>	1557 Hollis Street, 10th Floor P.O. Box 638 Halifax NS B3J 2T5 Telephone: 902-426-2386 or 1-866-433-5986 Fax: 902-426-8932	New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island
<b>Québec</b>	165 de la Pointe-aux-Lièvres Québec QC G1K 7L3 Telephone: 1-866-204-0101 extension 648-7151 or 418-648-7151 Fax: 418-648-5663	Chicoutimi, Québec, Rimouski, Sherbrooke and Trois-Rivières
<b>Montréal</b>	305 René-Lévesque Boulevard West Montréal QC H2Z 1A6 Telephone: 514-496-1317 Fax: 514-496-8045	Montréal-Rive-Sud and Montréal
<b>Laval</b>	3400 Jean-Béraud Avenue Laval QC H7T 2Z2 Telephone: 514-338-4198 or 1-888-784-8709 Fax: 514-338-4584	Laval, Outaouais and Rouyn-Noranda
<b>Ottawa</b>	333 Laurier Avenue West Ottawa ON K1A 0L9 Telephone: 613-598-4233 Fax: 613-952-1856	Eastern and Northern Ontario, and Nunavut
<b>Toronto Centre</b>	1 Front Street West, Suite 100 Toronto ON M5J 2X6 Telephone: 416-973-1717 Fax: 416-952-8334	Toronto Centre, Toronto East (Scarborough) and Toronto North (North York)
<b>Toronto West</b>	5800 Hurontario Street Mississauga ON L5R 4B4 Telephone: 905-566-6010 Fax: 905-566-6154	Toronto West (Mississauga)
<b>Hamilton</b>	55 Bay Street North P.O. Box 2220 Hamilton ON L8N 3E1 Telephone: 905-381-0515 Fax: 905-570-8247	Hamilton, Kitchener/Waterloo, London, St. Catharines and Windsor
<b>Calgary</b>	130, 220-4th Avenue South East Calgary AB T2G 0L1 Telephone: 403-691-5890 Fax: 403-691-6625	Alberta, Manitoba, Northwest Territories and Saskatchewan
<b>Vancouver</b>	1166 West Pender Street Vancouver BC V6E 3H8 Telephone: 1-866-317-0473 Fax: 604-691-3872	British Columbia and Yukon
<b>Toll-free</b>	1-800-959-5525	All offices

## Notes