



INCENTIVE PROGRAMS: INNOVATION MAY NOT BE AS COSTLY AS YOU THINK

How much time have you spent in the shop, trying to build the next best thing to harvest or haul logs cheaper or faster? How many times have you come up with an innovative concept, but did not implement it because of development costs or fears that innovations would negatively impact your rates? In an industry focused on managing costs to improve profitability, many companies have learned to just stick to the tried and tested ways. However, there are financial incentive programs to help offset the costs of innovation you may be unaware of.

Scientific Research & Experimental Development (SR&ED)

Every year the federal government awards approximately \$4 billion to Ca-

nadian companies making Scientific Research & Experimental Development (SR&ED) claims. The SR&ED program (“shred”) is a great tax credit incentive for businesses that are actively working on innovations within Canada. Even a minimal improvement **to an existing product or process** can qualify for the credit, however the SR&ED program can also be complicated and confusing. As a result, many potential refunds and tax credits for **qualifying innovations** have gone unclaimed simply due to low levels of awareness of the program, or potential claimants being unsure of what qualifies or how to properly submit a claim.

To be eligible for a SR&ED claim, your innovation must meet the following five criteria:

1. Was there a scientific or a technological uncertainty—an uncertainty that could not be removed by standard practice?
2. Did the effort involve formulating hypotheses specifically aimed at reducing or eliminating that uncertainty?
3. Was the adopted procedure consistent with the total discipline of the scientific method, including formulating, testing, and modifying the hypotheses?
4. Did the process result in a scientific or a technological advancement?
5. Was a record of the hypotheses tested and the results kept as the work progressed?

Questions 2 and 3 are probably the most intimidating since most industrial R&D does not formally structure their experimental development with the formulation of a hypothesis. Such formalization exists primarily in research laboratories and academic research environments.

Canadian controlled private corporations can receive a federal refundable credit of 35 per cent of the qualifying

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SR&ED expenses, up to a maximum of \$3 million in costs. For costs in excess of \$3 million there are also non-refundable credits available. Capital costs are no longer eligible for SR&ED claims.

In addition to the federal refundable credits, BC offers a provincial refundable credit of 35 per cent of the qualifying SR&ED expenses, up to a maximum of \$3 million in costs.

A SR&ED claim involves filing a number of information forms with Canada Revenue Agency (CRA) within 18 months of your fiscal year end and then going through a one-hour interview for first-time claimants.

Grants / Partnerships

There are a variety of grants available to companies with new innovative ideas. Grants are available for most stages of the design process through various government agencies and the private sector. These grants can cover a range of costs associated with research into innovation including consulting expenses, trial testing, wages and other costs. One such federal program is the Industrial Research Assistance Program

which is designed to help companies develop, adopt and adapt technology into competitive products or services for the market place. The program provides advisory services and funding to companies working on innovative projects.

Another way to share the risks and costs of innovating is by finding a partner to collaborate with. Post-secondary institutes are a great place to find partners of innovation. Many research interns are looking for new exciting ideas to work on while fulfilling their education requirements. Partnering with an educational institute can also open the innovation up to additional sources of funding only available to research projects such as the Collaborative Research and Development grants offered by the National Sciences and Engineering Research Council of Canada (NSERC).

Export Development Canada (EDC)

EDC works with Canadian companies and their banks to help reduce financial risk associated with selling goods or services outside of Canada. They provide insurance and financial services, bonding products and small

business solutions to Canadian exporters. Many of EDC's small business solutions are designed to help free up working capital so Canadian companies can grow their businesses.

What Other Incentives Does our Existing Tax System Offer to Promote Innovation?

Besides the SR&ED programs mentioned earlier in the article, most costs related to the development and implementation of new innovations are deductible for tax purposes in the year they incur.

Innovation is something every industry needs to be able to maintain profitability in a global market. Businesses should focus on the benefits of implementing their innovations with the added knowledge that there are programs and incentives to help them in their endeavors to innovate.▲

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