

SR&ED Programs in Canada and Opportunities

Presented by Samy Amar, CPA, CA, TEP
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Agenda

- 2018 & 2019 Personal tax rates
- 2018 & 2019 Corporate tax rates
- SR &ED programs in Canada
- R &D programs in Québec
- Québec Tax Holiday for Foreign Researchers & Specialists
- Investissement Québec (IQ) offers
- SR &ED programs in Ontario
- SR &ED programs in British Columbia and Rest of Canada
- Taxation of E-commerce
- Measures relating to the Québec sales tax (QST) and e-commerce
- Closing Remarks and Questions



2018 & 2019 Personal rates

	2018 Top combined marginal rates				2019 Top combined		
	Ordinary income & interest	Capital gains	Canadian Eligible dividends	Canadian Non-eligible dividends	Ordinary income & interest	Capital gains	Canadian Eligible dividends
British Columbia	49.80%	24.90%	34.20%	43.73%	49.80%	24.90%	31.17%
Ontario	53.53%	26.76%	39.34%	46.65%	53.53%	26.76%	39.34%

(1) Amount received after March 27, 2018

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3

2018 & 2019 Corporate rates

	2018 Combined rates				2019 Combined		
	General	M&P	CCPCs Active business income	CCPCs Investment income	General	M&P	CCPCs Active business income
British Columbia	27.00%	27.00%	12.00%	50.67%	27.00%	27.00%	11.11%
Ontario	26.50%	25.00%	12.50%	50.17%	26.50%	25.00%	12.50%

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4

SR & ED programs In Canada

➤ What is SR&ED?

- A systematic investigation or research in a field of science or technology by means of experiment or analysis, for the “advancement of scientific knowledge achieving technological advancement” for the purposes of creating “new or improved, material, devices, products or processes”...
- Over 35 countries, including Canada, have incentive programs for SR&ED to attract investment & encourage economic growth
- Governments encourages firms to undertake SR&ED through direct grants, tax incentives, and procurement
- Canada and Québec combined offer the most favorable SR&ED incentives in the world → which reduce the cost of performing SR&ED in Canada
- SR&ED credits vary depending on corporation’s status, size and taxable income

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5

SR & ED programs In Canada

(cont’d)

➤ SR&ED includes:

(a) Basic research without a specific practical application in view

(b) Applied research with a specific practical application in view

(c) Experimental development,

and, in applying this definition in respect of a taxpayer, includes:

(d) Work undertaken with respect to engineering, design, operations research, mathematical analysis, computer programming, data collection and testing or psychological research in support of work described above in (a), (b) and (c)

- **3 criteria:** Advancement – Uncertainty – Content
- There must be a clear link between the activities undertaken to complete the SR&ED project and the costs claimed for deductions and investment tax credits.

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6

SR & ED programs In Canada (cont'd)

- **Canadian Government Funding Programs for SR&ED:**
 - Build in Canada Innovation Program (BCIP)
 - Canadian Agricultural Adaptation Program (CAAP)
 - Canadian International Innovation Program (CIIP)
 - Canada Media Fund: Experimental Stream Innovation Program
 - Dairy Processing Investment Fund (DPIF)
 - Innovative Solutions Canada (ISC)
 - IRAP Accelerated Review Process (ARP) & IRAP Mid-Size Projects
 - MITACS Funding: Accelerate, Accelerate PhD Fellowship, Elevate
 - NSERC Engage & NSERC CDR
 - SD Tech Fund
 - Strategic Innovation Fund (SIF)
 - Industrial Research Assistance Program
 - Going Global Innovation (GGI)
 - Industrial R&D Fellowships
 - Business-Led Networks of Centres of Excellence Program
 - Other provincial government funding available

These programs offer tax credits, grants and/or loans



7

SR & ED programs In Canada (cont'd)

- **Canadian Government Funding Institutions for SR&ED is granted by:**
 - Networks of Centers of Excellence of Canada
 - Canada Foundation for Innovation (CFI)
 - Canadian Institute of Health Research (CIHR)
 - Foreign Affairs and International Trade Canadian Trade Commissioner Service
 - Natural Science and Engineering Research Council of Canada (NSERC)
 - National Research Council of Canada
 - Industrial Technologies Office (ITO)
 - Mitacs Canada
 - Canada Revenue Agency (CRA)
 - Other provincial contributors



8

SR & ED programs In Canada (cont'd)

- For provincial & territorial R&D tax credits, only corporations are eligible for SR&ED tax credits, except in Newfoundland and Labrador, Québec and Yukon, where individuals can also claim the credits

- **Federal SR&ED tax credits :**

	Investment tax credit (ITC) rate	Rate
Qualifying CCPCs	35% of annual qualified expenditures (up to \$3M or less)	10% for corporations
	+ 15% of qualified expenditures computed not eligible for the 35% rate	+ 10% for corporations

- **SR&ED expenditures** include salaries, contract payments, materials, overhead and equipment
- The SR&ED is also available for certain salaries or wages incurred in respect of SR&ED carried on outside Canada (limited to 10% of salaries & wages directly attributed to SR&ED carried on in Canada).
- Full **tax deduction for current SR&ED expenditures** (excess may be carried forward indefinitely)
- **Unused federal ITCs** may reduce federal taxes payable for the prior 3 years & next 20 years



Research & Development (R&D) programs In Québec

- 4 **refundable** tax credits to stimulate R&D in Québec:
 - 1) R&D Salary (salaries expenditures and subcontractor fees)
 - 2) R&D Private Partnership (pre-competitive research groups)
 - 3) R&D Consortium (contributions to small groups conducting shared research)
 - 4) University R&D (research contracts with universities/eligible centers)
- Available for salary and wages paid to employees and sub-contractors
- For CCPCs (assets < \$50M): **30 %** on the first \$3M of expenditures less exclusion threshold
- Tax credit rate is gradually reduced down to **14 %** if assets are between \$50M and \$75M
- Basic rate in Québec is a 14 % refundable tax credit on R&D Expenditures - applicable for foreign controlled corporations
- First \$ spent below exclusion threshold are not eligible for Québec R&D tax credits
 - \$50K if previous-year assets ≤ \$50M
 - Increases linearly up to \$225K if previous-year assets are between \$50M and \$75M



Québec Tax Holiday for Foreign Researchers & Specialists

- Foreign individuals who have expertise in certain areas of activity and who settle in Québec to work are entitled to a tax holiday.
- **Tax Holiday** = Tax exemption for a max. of 5 consecutive years on a portion of the salary received by the qualifying foreign individuals
- The following foreign individuals who are not residents in Canada immediately before their employment contract is signed, are entitled to the tax holiday:
 - **Researcher** (specializing in pure or applied sciences) who works for a person carrying on a business in Canada + who performs R&D in Québec
 - **Specialist** (in the field of management or financing of innovation activities, or in the marketing abroad or transfer of the latest technology) who is working for a person carrying on a business in Canada and performing R&D in Québec
- In computing their income, foreign individuals may deduct:
 - 100 % of their salary in the 1st & 2nd years
 - 75 % for the 3rd year
 - 50 % for the 4th year
 - 25 % for the 5th year

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11

Investissement Québec (IQ) offers

For SMBs and Large corporations:

- **Financing** via loans at competitive rates, loan guarantees with variable conditions, short- or long-term financing (up to 25 years), possible deferral of principal repayment (up to 24 months), etc
- **Development Capital** via equity financing (\$5M or more) or debt financing (up to \$100M)
- **Tax credits offered via Revenu Québec** for the : integration of IT in SMBs, development of E-business, production of multimedia titles, major digital transformation and job creation in the Gaspésie & Maritimes regions
- **Venture Capital** such as equity or quasi-equity (min. initial investment of \$1M)
- **Specialized investment funds** for high-potential businesses (over 70 funds that may come in play at different stages of the business)

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12

Investissement Québec (IQ) offers (cont'd)

For Innovative Manufacturers:

- **Financing** (up to \$250K) for the implementation of innovative projects, for the development & commercialization of new products, and for the modernization of production processes
- **Financing** (up to 100 %) of project costs, such as acquisition of machinery & equipment, expansions/upgrades and exports
- **ESSOR program** – loans or financial assistance covering up to 50 % of project costs for fast-growing companies seeking to carry out a substantial long-term development project
- **Equity financing** (\$2M-\$100M)
- **Immigrant investor program** - Non-refundable financial contribution of \$40K-\$250K depending on the project costs

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13

Investissement Québec (IQ) offers (cont'd)

For Other businesses:

- **Financing for collective entrepreneurship** – min. financing of \$50K/project covering up to 100 % of costs
- **Financing of Refundable Tax Credits** – up to 100 % of the refundable tax credits for a given fiscal year
- **BioMed Propulsion Program** – financial support for Québec life-sciences companies to support commercialization efforts by medical technology companies
- **Cooperative Buyout Support Program** –allows cooperatives to fully or partially buy out a business (\$100K - \$2M in financial assistance; repayment over max. 15 years; fixed interest rate)
- **PADAT program** – max. financing of \$5M covering up to 60 % of project costs of tourism businesses

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14

SR & ED programs In Ontario

➤ **Ontario government offers 3 SR&ED – related tax credits:**

- 1) Ontario Innovation Tax Credit – 8 % refundable tax credit (max. \$3M expenditure limit) available where the federal taxable income of the associated group in prior tax years is < \$500K and is fully eliminated at \$800K subject to limits on taxable capital. No carry-back or carry-forward available
- 2) Ontario Research & Development Tax Credit – 3.5 % non-refundable tax credit on all allowable Ontario SR&ED expenditures (can be carried-back 3 years or carried-forward 20 years). Can be carried-back 3 years or carried-forward 20 years
- 3) Ontario Business Research Institute Tax Credit – 20 % refundable tax credit on qualified SR&ED expenditures incurred with eligible research institutes (max. \$20M qualified expenditures for an associated group of companies; max. annual tax credit of \$4M). No carry-back or carry-forward available

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15

SR & ED programs In British Columbia And Rest of Canada

➤ **British Columbia government offers following SR&ED credits:**

➤ To CCPCs:

- A 10 % refundable tax credit on all qualified expenditures not exceeding the federal expenditure limit for the year
- A 10 % non-refundable tax credit on any expenditure exceeding that amount
- No carry-back or carry-forward possible

➤ To corporations other than CCPCs:

- A 10 % non-refundable tax credit (can be carried-back 3 years and carried-forward 20 years)

➤ **Rest of Canada**

Various other tax incentives are offered in the other provinces & territories of Canada with special emphasis for SMBs (except for the Prince Edward Island, the North West Territories and Nunavut, where there are no SR&ED incentives).

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16

Taxation of E-commerce

➤ **What is E-commerce?**

Any commercial activity carried out over networks which link electronic devices

Includes commercial activities conducted over the:

- Internet,
- by telephone or fax,
- electronic banking and payment systems,
- trade in digitized goods & services, and
- electronic purchasing and restocking system

➤ E-commerce includes:

- Provision of services (such as online consulting & technical support)
- Licensing of intellectual property
- Sale of goods over the Internet (such as digital products & tangible property)

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17

Taxation of E-commerce

➤ The business structure for e-commerce + the form of technology involved challenges the application of tax laws

➤ No specific income tax provisions govern e-commerce → general rules & principles apply

➤ To be taxable in Canada **must carry on business in Canada:**

- Non-resident vendor must carry on business in Canada or derive income (such as rent subject to withholding)
- A treaty country resident that carries on business in Canada is NOT taxable in Canada unless it **has a Canadian permanent establishment (PE)**.

➤ **Carrying on a business in Canada - 3 criteria:**

- 1) Where the contract is made
- 2) Where the goods are delivered or payment is made
- 3) Where the business assets are located

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18

Taxation of E-commerce

2 types of tax implications for E-commerce sellers: sales tax + income tax

1) Income tax - Federally

- Canadian controlled private corporations (CCPCs) pay approx. 14-17 % on the first \$500K of income
- Non-resident corporations pay approx. 25-31 % (depending on the province) regardless of the amount of income
- Tax treaties may relieve some companies from paying Canadian taxes if the corporation does not have a permanent establishment in Canada
- U.S.-Canada tax treaty protects the e-commerce sellers who do business in Canada or U.S. and do not have a permanent establishment in the other contracting state
- More operations in the country of destination translate into more tax obligations & complexities

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19

Taxation of E-commerce (cont'd)

➤ How does the CRA track e-commerce transactions:

- Generally , a self-assessing system
- However, CRA has access to different sources of information to verify or dispute information reported by taxpayers
- CRA's e-commerce enforcement efforts have increased over the past 10 years

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20

Taxation of E-commerce (cont'd)

1) Income tax (cont'd) – Québec

- Québec government has created 2 tax credits for the development of e-business:
 - Refundable tax credit of 24 % of eligible wages (max. annual limit of \$20K/employee)
 - Non-refundable tax credit of 6 % of eligible wages (max. annual limit of \$5K/employee)
- Corporation must have a permanent establishment in Québec where it carries on a business in the IT sector
- Eligible activities include: IT consulting services; development, integration & maintenance of information systems & technology infrastructures; development of security & identification services related to e-commerce activities, etc
- IT activities excluded: operation of an e-business solution or of a customer contact centre, equipment installation & training activities, activities related to a marketing information system, etc

Need not to be a Canadian controlled corporation
(i.e. full tax credit available to U.S. or other foreign corporations)

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21

Taxation of E-commerce

2) Sales Tax (federal & provincial) on products shipped to Canadian consumers

- Understanding what sales taxes to collect you need to know the: a) product, b) place of shipment, c) place of destination
- Registration – mandatory or voluntary
 - Must request a Business Number with the CRA
 - Must register for GST/HST and PST accounts for the province(s) you operate in + remit all sales tax collected by the deadlines
- E-commerce company must collect sales taxes from Canadian buyers if all following 3 criteria are met:
 - a) You are deemed to carry on a business in Canada
 - b) You are selling taxable supplies
 - c) You are not a small business supplier

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22

Taxation of E-commerce

- **Secondary Deposit Requirement** – if no permanent establishment in Canada + sales of more than \$100K annually with net sales taxes of more than \$3K
- 3 different filing **frequency of the sales tax return** – depending on the vol. of taxable sales made in Canada

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23

Measures relating to the Québec sales tax (QST) and e-commerce

- 2018 Québec budget proposed the implementation of mandatory registration systems for suppliers with no physical or significant presence in Québec
 - Such suppliers will be required to collect and remit QST on taxable intangible property and services they supply in Québec
 - If such supplier is located in Canada it will be required to collect and remit the QST on taxable tangible personal property they supply in Québec
 - Such supplier will be required to register with Revenu Québec via a new specified registration system
 - Value of consideration for all taxable supplies in Québec to consumers must exceed \$30K

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24

Measures relating to the Québec sales tax (QST) and e-commerce

- Such supplier will not be able to claim and input tax refund (ITR) in respect of property or services acquired in the course of their commercial activities
 - Recipients registered under general QST registration system who pay QST to such a supplier will not be able recover the tax paid by the ITR mechanism
 - Specific rules for digital property and services distribution platforms
 - An election to register under general registration system will be available
- The measure will apply as of January 1, 2019 in the case of non-resident suppliers outside Canada, and September 1, 2019 in case of non-resident suppliers located in Canada

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25

Closing Remarks and Questions

- SR&ED rules are extremely complex →counsel from tax experts required
- SR&ED program is an important source of federal assistance which reduces significantly the cost of performing SR&ED in Canada
- Government support for SR&ED activities: tax incentives, direct grants and procurement
- CCPCs get the most tax savings from the SR&ED programs
- E-commerce refundable credits in Québec are available for foreign corporations
- Investissement Québec is an economic development agency and a financing corporation →Work together with them to obtain financing tailored to your needs + to share the risk of your SR&ED projects
- A business doing SR&ED will find it easier to attract foreign researchers & specialists to Québec because of the tax holiday to which they are entitled
- No specific income tax provisions govern e-commerce →E-commerce businesses must look at the general rules & principles to determine whether or not they are taxable in Canada and/or need to charge the sales tax

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26

Speaker - SLF Montreal



Samy Amar, CPA, CA, TEP
(514) 788-5632

- Tax partner in Montreal and head of Tax Services
- From “Big 5” Canadian accounting firms (KPMG & MNP)
- Tax Leader in public corporations
- 25+ years of experience in tax:
 - U.S. and International cross border tax
 - Corporate tax planning and strategic development
 - M&A transactions
 - Domestic/International financing
 - Trusts and estates planning



27

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28

Thank you

Questions



29