

THE CANADIAN R&D TAX CREDIT: HOW IT APPLIES TO THE CHEMICAL INDUSTRY

Most chemical manufacturers are not aware that Canada has one of the most generous research and development incentive programs available in the world. Over the past 30 years, the Canadian government has put into place strong tax incentives in order to encourage Canadian businesses to engage in the conduct of scientific research and experimental development. The Scientific Research and Experimental Development Tax Incentive Program (often referred to as simply SR&ED or SRED) is a government-sponsored program that provides cash incentives (in the form of tax credits and/or refunds) to Canadian companies conducting research and development within Canada. Each year, approximately 11,000 Canadian companies take advantage of the SR&ED program, claiming an estimated \$1.8 billion in tax incentives. However, most manufacturers eligible for these incentives are not taking full advantage of them. A recent survey conducted by the Canadian Manufacturers and Exporters Association (2005-2006) revealed that only 39% of companies take advantage of SR&ED tax incentives. The same survey showed that 31% of the companies are not even aware of any existing SR&ED tax incentives.

Who & What Qualifies for SR&ED Tax Incentives?

Under the program, any individual or corporation carrying on qualified research in Canada is eligible. Think that you have to have a PhD and a state-of-the-art laboratory to be conducting qualified SR&ED as defined by the Canada Customs and Revenue Agency? Think again. Most chemical manufacturers tend to regard scientific research and experimental development as an activity associated solely with the largest, most sophisticated chemical companies. However, SR&ED-eligible activities can also be integrated within the daily business activities of small to mid-size companies. Many chemical manufacturers tend to regard their own efforts to make new, cleaner, stronger, cheaper, and more reliable chemical products as “just doing my job” when in fact they have been performing SR&ED qualifying activities all along. Furthermore, many chemical manufacturers, packagers and distributors fail to recognize that their efforts to develop new or improved manufacturing, packaging, and warehousing processes may also constitute SR&ED qualifying projects. The following provides a summary of some of the SR&ED qualifying activities typically undertaken by chemical companies:

- Developing new or improved chemicals
- Chemical blending activities
- Developing new or improved formulas
- Testing and validating formulations
- Ingredient/raw material research to increase functionality
- Ingredient/raw material research to reduce cost
- Sample development
- Sample testing and validation
- Adherence to regulatory requirements through testing
- Developing or improving production processes

- Streamlining manufacturing/bottling/packaging processes through automation
- Shelf life/stability testing
- Implementing and validating process equipment
- Packaging development and testing
- Developing ways to lessen the environmental impact of your products and processes
- Designing new or improved software

As the extensive list of qualifying activities illustrates, a broad array of companies potentially qualify for the SR&ED credit. When thinking of activities and wondering what qualifies for SR&ED tax benefits, remember that generally, R&D occurs when a business' objective is technological advancement, the development of which occurs in a systematic manner through the efforts of individuals who are skilled in the technologies involved and technological uncertainties are overcome.

How Much?

Although the exact amount of benefits varies under client-specific facts and circumstances, it is not unusual for Canadian companies to receive a 40-70% return on their R&D investments through federal and provincial SR&ED tax credits! So, for every \$1.00 that you spend on R&D in Canada, you may be entitled to as much as 40 to 70 cents in tax credits, or better yet, cash refunds!!!

How Can [alliantgroup](#) Help You?

[alliantgroup](#) is an independent international advisory services firm specializing in government-sponsored R&D programs in the US and Canada. Our SR&ED technical advisors have over 6 years of experience in assisting over 300 companies in various industries with SR&ED claims, including substantial experience in the chemical manufacturing industry. For more information on how [alliantgroup](#) can assist you in claiming the SR&ED tax credits that you deserve, please contact David Ji at the following:

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