

SR&ED Credits (Canada Only)

Only 1 in 10 of the 70,000 firms eligible for tax credits and tax credit refunds under the SRED program actually apply for them.

Of the 7000 firms who do apply for SRED tax credits and refunds, most leave money on the table due to a misunderstanding of what constitutes an eligible expense under the legislation. For example, whereas general quality control expenses are specifically excluded from the SRED program, the legislation specifically allows for those same kinds of expenses if they are incurred in support of a qualified SRED project. In fact, CRA will send an agent to your offices to determine if a particular project is eligible for the SRED program before you begin the project.

Here are the two most common means of financing SRED refunds:

1. Lines of Credit / Loans - With the SRED refund filed, many firms approach their banks for financing in the form of a loan or a 'bulge' in their line of credit. As mentioned above, if you export a great deal, EDC might use your SRED refund as collateral to guarantee your loan with a bank. If your business is not in exports, fear not, some banks will accept your filed SRED refund claim as collateral directly.
2. Sale of the Refund - Firms whose capacity to comply with bank terms or where the owner's preference leads them away from banks as a source of financing have options available to them, namely the sale of their SRED refund to a financing company/merchant bank. This increasingly popular means of financing is similar to a loan or line of credit in that firms have rather immediate access to funds, but different in that the refund is being sold, instead of used as collateral and so this option carries with it few, if any of the restrictive covenants typically seen in the terms of loans and lines of credit.

Every year in Canada 150,000 new businesses stake their claim and try to make a go of it. In Ottawa and other high-tech centres in particular, many of these businesses plan to succeed through the commercialization of new technologies or new applications of old technologies.

The SRED program was created, in no small part, to recognize the fact that commercializing new technologies is often a long, R&D-intensive (read: expensive) and rarely-profitable process. Businesses engaged in R&D are typically struggling to make ends meet with limited capital and poor cash-flow. By ignoring or failing to take full advantage of funding available through the SRED program, these businesses limit their chances of success.

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