



Canada Revenue
Agency

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du Canada

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

Guide to Form T661

If you are blind or partially sighted, you can get our publications in braille, large print, e-text, or MP3. For more information, go to www.cra.gc.ca/alternate or call **1-800-959-8281**.

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*, the *Income Tax Regulations*, interpretation bulletins, Tax Folios, and SR&ED policy documents 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?

We have revised the guide to reflect the changes made to the T661, *Scientific Research and Experimental Development (SR&ED) Expenditures claim form* (Form T661) to accommodate the legislative changes enacted in December 2012 as well as measures introduced in the 2013 Federal Budget (\$1,000 Penalty), and to ensure that the content is consistent with the SR&ED policy papers. To access SR&ED Program policies, go to www.cra.gc.ca/sred and click on the SR&ED Program policies link.

Changes to Form T661

Effective as of January 1, 2014, we accept only the T661(13) version of the form for all tax years.

Changes to the Guide to Form T661

We have revised the guide to reflect the legislative changes from Bill C-45 (2012) that became law in December 2012 and Bill C-4 (2013), which became law in December 2013.

Legislative changes

Legislative changes are posted on the SR&ED webpage 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.

The SR&ED legislation and the program's policy documents and other technical publications, which are referenced, 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, policy documents, publications, Form T661 with links to the online guide, and other useful information on our website at www.cra.gc.ca/sred.

Advisory services and tools

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

First-Time Claimant Advisory Service

First-Time Claimant Advisory Service (FTCAS) is a free in-person service that provides first-time SR&ED claimants with an opportunity to meet with CRA staff.

Public information seminars

Public information seminars – provide information and assistance to claimants in filing their claim. These seminars are held regularly at locations across Canada.

SR&ED Self-Assessment and Learning Tool

The Self-Assessment and Learning Tool (SALT) helps claimants better understand the eligibility requirements of the SR&ED program.

Preclaim Project Review (PCPR) Service

The PCPR Service provides for your business, an up-front review and preliminary opinion on the eligibility of projects for SR&ED tax incentives.

Account Executive Service

The Account Executive Service gives your business a designated contact person. An account executive from the SR&ED program will provide you with one-stop access to SR&ED information, and help make sure you get maximum benefits from the tax incentives available.

Resolving Claimants' SR&ED Concerns

The Canada Revenue Agency (CRA) is committed to providing fair treatment to all claimants of the SR&ED program. If you do not agree with the findings of the review of your SR&ED claim, or if you have any concerns with how the review was conducted, you are encouraged to take specific steps to resolve your concerns.

You are encouraged to use these services, which are available through CRA tax services offices across the country. For more information, visit our website at www.cra.gc.ca/sred under **Services and tools**.

The SR&ED Program provides the following two incentives:

1. You can deduct SR&ED expenditures to reduce your income for tax purposes in the current tax year or carry these expenditures forward to reduce your income for tax purposes in future tax years.
2. You can receive an SR&ED investment tax credits (ITCs) on qualified expenditures in the form of a cash refund or a reduction of tax payable or both. Unused SR&ED ITCs can be carried back three years or carried forward 20 years.

Filing requirements

To access the two incentives for your SR&ED work performed, you must complete and submit the following forms containing the prescribed information by your SR&ED reporting deadline:

- (1) Form T661; and
- (2) Schedule T2SCH31 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. If you are amending any of the above forms and schedules and want to file electronically, they must be filed with an income tax return for the year.

A claimant's SR&ED 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 SR&ED reporting deadline, you will not be entitled to receive the SR&ED incentives for that expenditure.

If you use CRA-approved commercial software to prepare your income tax return, you can submit your SR&ED claim electronically with your income tax return. If you do not have access to CRA-approved commercial software, you can use forms and schedules printed off the CRA website to file your SR&ED claim.

Note

It is mandatory for certain corporations to file electronically. For more information, see Corporation Internet Filing.

References: *Income Tax Act* subsection 37(11), paragraphs 127(9)(m) and 149(1)(j); SR&ED Filing Requirements Policy

To expedite the processing of your SR&ED claim

- Complete Form T661 and Schedule T2SCH31 or Form T2038(IND), as applicable, containing all the prescribed information. Ensure all items listed in Part 8 - 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 SR&ED reporting deadline.
- For a partnership, Form T661 should be filed with the partnership information return no later than 12 months after the earliest of all filing due dates for the return of income of the members for the tax year in which the partnership's fiscal period ends. Each member would then be able to meet the deadline to claim the SR&ED investment tax credit (ITC) allocated to them.
- Tick the appropriate box on your income tax return requesting a direct deposit of your refundable SR&ED investment tax credit (ITC), if applicable.
- If you are not using approved commercial software to prepare your income tax return, place the completed Form T661 on top of your income tax return for quick identification.
- File your SR&ED claim by the SR&ED reporting deadline at the appropriate tax centre. A list of the CRA's tax centres is provided in the T1 and T2 guides.
- Respond in a timely manner if we contact you for more information.
- Complete new Part 9 to include claim preparer information. If a claim preparer did not prepare or assist in the preparation of Form T661 complete only lines 935, 970, and 975 in Part 9.
- Form T661 and Schedule T2SCH31 or Form T2038(IND) should be filed with your income tax return for the year. If you are amending any of these forms and schedules and want to file electronically, they must be filed with an income tax return for the year.

SR&ED co-ordinating tax services offices

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

Classified Projects

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

- Complete all parts of Form T661, but use a separate sheet for the project information requested in Section B of Part 2. The rest of Part 2 must be completed on the form.

- Send a letter to the following address:

Science & Technology 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 separate sheet containing the information for Section B of Part 2 for the classified projects with your claim, but ensure you keep a copy for your records.

Provincial and territorial tax incentives

Provincial and territorial tax 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 links to their websites in our Summary of provincial and territorial research and development (R&D) tax credits.

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

This guide 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

Line 010 – Name of claimant

Enter the registered business name. If the claim is filed for a partnership, enter the name of the partnership.

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 15 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 information

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 projects claimed.

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 claimed for the tax year. If you wish, you can choose to submit this part for only the 20 largest projects in dollar value, at the time of filing.

However, the CRA may request this part for some, or all, of the remaining projects at a later time. Failure to provide this information will result in the disallowance of the expenditures claimed for the projects as SR&ED expenditures.

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 (SR&ED) 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, how 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 information is required on a project-by-project basis. As a result, you should be aware of the meaning of “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*. Such a project comprises a set of interrelated activities that collectively are necessary to overcome the scientific or technological uncertainties in the attempt to achieve the specific scientific or technological advancements defined for the project and are pursued through a systematic investigation or search in a field of science or technology by means of experiment or analysis performed by qualified individuals.

When you frame your descriptions of the claimed work, we recommend that you follow the above 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); Eligibility of Work for SR&ED Investment Tax Credits Policy

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 the questions in Section B. 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 an identification code 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 scientific or technological uncertainties are identified and the work to resolve those 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:

- achieve the advancement by resolving the associated uncertainties;
- determined that the uncertainties cannot be resolved; 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 ongoing 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 in which the SR&ED project was attempting to achieve an advancement.

The fields of science and technology listed in Appendix 1 are used for statistical and resource management purposes only. It is not an exhaustive list of all eligible fields of science or technology.

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

Indicate whether or not you made an SR&ED claim for this project in any previous tax year. Select only one. If the project is a continuation from a predecessor company, and it is the first time you are making a claim, 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, with or without a formal agreement.

- Do not include contractors that performed some or all of the work. Information regarding contractors is requested on lines 267 to 269.
- Do not include other parties that contracted you to perform SR&ED work on their behalf. This information is 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 (BNs) at line 221.

Section B – Project descriptions

In this section you must provide technical details of your basic research, applied research, or experimental development project. Lines 242, 244, and 246 have word limitations of 350, 700, and 350 respectively. Therefore, your 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.

Use existing materials and documents generated during the course of your work to extract the pertinent information to complete this section. You should retain these materials and documents so that the CRA can verify that there is a reasonable level of support for the SR&ED work that was performed in the tax 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.

Line 242 – What scientific or technological uncertainties did you attempt to overcome – uncertainties that could not be removed using standard practice?

(Maximum 350 words)

Describe the scientific or technological uncertainty you encountered that led you to do the SR&ED.

In responding to this question, we suggest that you include the objective of the project and describe the scientific knowledge or the new or improved capability you were seeking. Your response should indicate the existing technology base or level, or the existing body of scientific knowledge at the onset of the SR&ED project. Describe the shortcomings or limitations of that technology base or body of knowledge that prevented you from overcoming the scientific or technological uncertainties identified. In other words, your response should describe how the uncertainties could not be resolved on the basis of generally available scientific or technological knowledge or experience.

Reference: Eligibility of Work for SR&ED Investment Tax Credits Policy

Line 244 – What work did you perform in the tax year to overcome the scientific or technological uncertainties described in line 242?

(Maximum 700 words)

In responding to this question, describe, in a clear and concise manner, how you attempted to overcome the scientific or technological uncertainties that you identified at line 242.

Describe the work done in chronological order. In doing so, clearly demonstrate the planned approach (systematic nature of the investigation or search). This includes describing the experiments and/or analysis conducted, including the results obtained, their interpretation, and the conclusions.

If this is a continuation of a previously claimed project, it is important that you focus on the work carried out during the tax year for which you are making the claim.

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: Eligibility of Work for SR&ED Investment Tax Credits Policy

Line 246 – What scientific or technological advancements did you achieve as a result of the work described in line 244?

(Maximum 350 words)

Describe the new scientific knowledge you gained or the technological advancements you achieved as a result of the SR&ED work you performed.

Note that it is the advancement in the underlying science or technology that is important, not how the work advanced your business or business practices.

In responding to this question, we suggest that you focus on how the work you described at line 244 generated new

scientific knowledge or advanced the technology base or level that existed at the onset of the project.

Note

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

In addition, failure to achieve your objectives or goals does not necessarily mean there is no advancement. An understanding gained by learning **why** a possible solution will not succeed or will not meet the desired objectives may constitute an advancement in science or technology.

Reference: Eligibility of Work for SR&ED Investment Tax Credits Policy

Section C – 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 context 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.

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

If you tick box 253, complete line 254.

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

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

If you tick this box, complete line 256.

Line 256 – Provide the name of the employee who prepared the responses.

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

If you tick this box, complete line 258.

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

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 at line 244.

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 their position title. The experience listed at this line should be relevant to the SR&ED work performed.

Line 265 – SR&ED performed outside Canada

Indicate whether you are claiming salary or wages for SR&ED work performed outside Canada for this project.

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 at 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 (for example, contractors).

Note

If all or part of the work was performed by contractors, ensure that a description of the work performed on your behalf or a copy of the contract, including a statement of work, is available for review.

If you answered **yes** at 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 listed on line 268.

Line 268 – Names

Provide the names of the individuals or businesses that performed the work.

Line 269 – Business number

Provide the business number (BN) of those listed on line 268. For individuals you can 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. Tick all items on the list that apply. If you have items or documents to support your claim that are not listed, tick the box at line 281 and use 15 words or less to describe them on line 282.

If you fail to tick a box when you initially file your claim, you can 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.

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 select the method you will be using 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 selection 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 you incurred for SR&ED during the tax year. The proxy method provides an alternative method to computing overhead and other expenditures that result in a prescribed proxy amount (PPA). The PPA is not included in the pool of deductible

SR&ED expenditures, and you do not deduct it when calculating income. However, you can earn an SR&ED investment tax credit (ITC) on the PPA since it forms part of the qualified SR&ED expenditures for SR&ED ITC purposes. (Refer to Part 4.)

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

Lines 160 and 162 – Select the method

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

Line 162 – Tick this box if you choose to use the traditional method to calculate your SR&ED expenditures. Make sure you complete line 360 and track any expenditure incurred for SR&ED overhead and other expenditures. Do not complete Part 5, and enter “0” on lines 355 and 502.

References: *Income Tax Act* subsection 37(10); Traditional and Proxy Methods Policy

Table 1 below compares the treatment of SR&ED expenditures under the traditional and proxy methods.

Table 1		
Treatment of SR&ED expenditures under the traditional and proxy methods		
SR&ED expenditure	Traditional method	Proxy method
salary or wages of employees directly engaged in SR&ED	<ul style="list-style-type: none"> ■ eligible for SR&ED investment tax credit (ITC) ■ deductible as SR&ED expenditure 	<ul style="list-style-type: none"> ■ eligible for SR&ED ITC and used in the calculation of the salary base for the PPA (see Part 5) ■ deductible as SR&ED expenditure
overhead expenditures directly related and incremental to SR&ED other overhead expenditures directly attributable (see Table 5) Other expenditures directly attributable (see Table 5)	<ul style="list-style-type: none"> ■ eligible for SR&ED ITC (see line 360) ■ deductible as SR&ED expenditure 	<ul style="list-style-type: none"> ■ not specifically identified ■ covered in the PPA ■ PPA is eligible for SR&ED ITC ■ deductible as regular business expenses only—not deductible as SR&ED expenditure
expenditures claimed separately: <ul style="list-style-type: none"> ■ materials consumed or materials transformed in performing SR&ED ■ lease costs of SR&ED equipment incurred before 2014 ■ contract expenditures for SR&ED performed on your behalf (after 2012, 80% eligible for ITC) ■ third-party payments (after 2012, 80% eligible for ITC) ■ SR&ED capital expenditure (incurred before 2014) 	<ul style="list-style-type: none"> ■ all items are eligible for SR&ED ITC ■ all items are deductible as SR&ED expenditure Notes on lease costs (incurred before 2014): <ul style="list-style-type: none"> ■ claim lease costs of equipment when it is used all or substantially all (ASA) in SR&ED on line 350 ■ claim lease costs of equipment used in SR&ED but not used ASA as an overhead expense on line 360 ■ lease costs and capital are no longer eligible for SR&ED tax incentives after 2013 	<ul style="list-style-type: none"> ■ all eligible for SR&ED ITC ■ all deductible as SR&ED expenditure Notes on lease costs (incurred before 2014): <ul style="list-style-type: none"> ■ claim lease costs of equipment when it is used ASA in SR&ED, excluding general-purpose office equipment or furniture on line 350 ■ claim 50% lease costs of equipment when it is used primarily in SR&ED excluding general-purpose office equipment or furniture on line 355 ■ lease costs and capital are no longer eligible for SR&ED tax incentives after 2013
The PPA represents SR&ED overhead and other expenditures such as: <ul style="list-style-type: none"> ■ office supplies; ■ general-purpose office equipment or furniture (GPOEF)(incurred before 2014); ■ heat, water, electricity, and telephones; ■ salary or wages for support staff; ■ other salary or wages of employees who directly undertake, supervise, or support the prosecution of SR&ED, that are directly related but would not be considered as salary or wages of employees who are 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 prosecution of SR&ED; ■ employer's share of related benefits; ■ travel and training; ■ property taxes; ■ maintenance and upkeep of SR&ED premises, facilities, or equipment; and ■ any other eligible expenditure directly related to the prosecution of SR&ED that you would not have incurred if the SR&ED had not been carried out. 		

Table 2 below provides some of the advantages and disadvantages of the proxy method and the traditional method.

Table 2 Advantages and disadvantages of the proxy method and the traditional method		
Method	Advantages	Disadvantages
Proxy method	<ul style="list-style-type: none"> ■ no need to specifically identify (track) and allocate overhead and other expenditures for SR&ED ■ SR&ED investment tax credit (ITC) is earned on the PPA, which is 65%, 60%, or 55% (see line 820 in Part 5, Section B) of the salary base calculated using directly engaged SR&ED salary or wages ■ easy to determine the PPA once you establish the salary base (PPA is calculated in Part 5) ■ actual overhead and other expenditures incurred may be less than the PPA 	<ul style="list-style-type: none"> ■ the PPA or any expenditures that the PPA represents cannot be included in the SR&ED expenditure pool of deductible SR&ED expenditures ■ the salary base must be calculated ■ overall cap on the PPA may need to be calculated (see example in Part 5, Section B) ■ the PPA may be less than the actual overhead and other expenditures incurred
Traditional method	<ul style="list-style-type: none"> ■ overhead expenditures can be included in the pool of deductible SR&ED expenditures ■ may result in actual overhead and other expenditures incurred being greater than the PPA ■ do not need to calculate the salary base and determine the PPA in Part 5 ■ do not need to calculate the overall cap 	<ul style="list-style-type: none"> ■ must demonstrate that the overhead and other expenditures are directly related and incremental to the SR&ED ■ can be complex in certain situations such as when SR&ED and non SR&ED work are carried out in the same facility (for example, shop floor SR&ED) ■ must specifically identify (track) and allocate which overhead and other expenditures are for the SR&ED work ■ must explain how you determined the amount and must provide support for the determination and expenditures claimed ■ the PPA may be greater than the actual overhead and other expenditures incurred

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 allowable current and capital SR&ED expenditures that you made in the tax year for the SR&ED projects you are claiming. In respect of capital SR&ED expenditures, only include those expenditures that were incurred before January 2014.

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

The salary or wages that you include on lines 300 to 309 must only be for employees who are directly engaged in SR&ED. Table 3 below, provides assistance to claimants to determine how to treat the salary or wages for various tasks and duties. The claimant should view its employees' tasks in terms of how they correlate to the primary reason for employment when determining whether the employee's salary or wages are directly engaged in SR&ED. The determination of whether an employee is directly engaged in the prosecution of SR&ED, however, is a question of fact.

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 from those who are not.

Tip

If you are using the traditional method, you may be able to claim as overhead expenditures on line 360 the employer's share of the related benefits. You may also be able to claim on line 360 as other expenditures the portion of other salary or wages of employees who directly undertake, supervise, or support the SR&ED (other than directly engaged) and certain salaries for management and support staff who have performed functions which were directly related to the prosecution of SR&ED performed in the tax year. See Table 5 for the types of expenditures that can be included on line 360.

References: *Income Tax Act* sections 5 to 8, subsections 37(9), 37(9.5), and 248(1), paragraph 37(1)(a), clause 37(8)(a)(ii)(A), subclause 37(8)(a)(ii)(B)(IV); *Income Tax Regulations* paragraph 2900(2)(b); SR&ED Salary or Wages Policy

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

Enter the portion of salary or wages and taxable benefits you incurred and paid (in the tax year or paid within 180 days of the tax year-end), 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 based on the time spent on SR&ED activities.

Example 1

An employee works 2,000 actual hours in a 12-month period and spends 1,000 of these hours (50% of the employee's 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 (that is, $1,000/2,000 \times \$50,000$).

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

Example 2

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.

References: Income Tax Act sections 5 to 8, subsections 78(4) and 248(1), paragraph 37(1)(a), clause 37(8)(a)(ii)(A), subclause 37(8)(a)(ii)(B)(IV); Income Tax Regulations paragraph 2900(2)(b); SR&ED Salary or Wages Policy

Line 305 – Specified employees for work performed in Canada

Enter the portion of salary or wages and taxable benefits you incurred and paid (in the tax year or paid within 180 days of the tax year-end) 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.

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 that 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)*.

References: Income Tax Act sections 5 to 8, subsections 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 Regulations paragraph 2900(2)(b); SR&ED Salary or Wages Policy

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.

The lesser of **Amount A** and **Amount B**, discussed below, 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 of how to calculate the portion of salary 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 an employee 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 work was related to a business of the claimant;
- 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
- the 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.

Tip

Under the traditional method, the **total salary or wages** for Amount B includes directly engaged salary or wages from line 306 plus the salary or wages of employees who directly undertake, supervise, or support the SR&ED that you claim on line 360. See Table 5 under the heading "Salary or wages for the prosecution of SR&ED (other than directly engaged in SR&ED)" for examples of such tasks.

Example

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

Company Z has five employees (other than specified employees) performing SR&ED and each is 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 Z's SR&ED salaries for the tax year are \$540,000 ($\$9,000 \times 12 \times 5 = \$540,000$).

One of the five employees performed SR&ED work outside Canada one month in the tax year.

The permissible salary for work performed outside Canada is the lesser of A and B:

A – \$9,000 eligible salary or wages for the employee who performed work outside Canada

B – \$53,100 (total salary or wages for SR&ED performed minus salary or wages for SR&ED performed outside Canada) x 10% calculated as (\$540,000 – \$9,000) x 10%

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

References: Income Tax Act sections 5 to 8, subsections 37(1.4), 37(1.5), 78(4), and 248(1), paragraph 37(1)(a), clause 37(8)(a)(ii)(A), subclause 37(8)(a)(ii)(B)(IV); *Income Tax Regulations* paragraph 2900(2)(b); SR&ED Salary or Wages Policy

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 for 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 on 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.

This maximum amount is prorated by the number of days in the tax year on 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)*.

Note

Under the proxy method, the total of lines 307 and 309 cannot exceed 10% of the amount on line 306. Under the traditional method, the total of lines 307 and 309 cannot exceed 10% of the total of line 306 plus the salary or wages of employees who directly undertake, supervise, or support the SR&ED that you claim on line 360.

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 Regulations* paragraph 2900(2)(b); SR&ED Salary or Wages Policy

Lines 310 and 315 – Unpaid salary or wages

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

Line 310 – Salary or wages from prior tax years paid in this tax year

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

Line 315 – Unpaid salary or wages

Enter the amount of salary or wages incurred in the tax year but not paid within 180 days of the tax year-end. The unpaid amount you report on line 315 should not be included on lines 300 to 309 or on line 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 below, provides assistance to claimants to determine how to treat the salary or wages for various tasks and duties.

Table 3 Claiming salary or wages for SR&ED			
Type of task or duty	Salary or wages for employees directly engaged in SR&ED	Salary or wages included in 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 performing tasks such as: <ul style="list-style-type: none"> ■ operating a machine for the purposes of an experiment that requires the use of this machine; or ■ feeding raw materials into a machine. To be eligible, the non-specialized employee's work must be supervised by staff with scientific or technological qualifications.	X		
4. Supervision of employees performing SR&ED and SR&ED contract administration (technical input only).	X		
5. Technological planning for ongoing SR&ED projects you claimed in the tax year, such as planning for: <ul style="list-style-type: none"> ■ assignment of technological personnel; ■ job priorities; ■ development of technological strategies; or ■ quality of materials used. 	X		
6. Technological feasibility studies relating to SR&ED projects carried out.	X		
7. Technical documents for internal use.	X		
8. Long term planning for future SR&ED projects, for example: <ul style="list-style-type: none"> ■ planning for prototype vs. commercial scale; or ■ project selection. 		X	
9. Human resource activities such as technological staffing.		X	
10. SR&ED contract administration.		X	
11. Technological training for ongoing SR&ED projects you claimed in the tax year.		X	
12. Preparation of Form T661 for SR&ED projects carried out in the current tax year.		X	
13. Clerical and other support (for example, in personnel, accounting, maintenance or repairs, or purchasing) if the functions performed are non-technological and aid the ongoing SR&ED you claimed in the tax year, and the salary or wages of the employees providing the support are incremental and directly related 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 Regulations* paragraph 2900(2)(b); SR&ED Salary or Wages Policy; SR&ED Overhead and Other Expenditures Policy; 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 performing your SR&ED. You can claim the cost of materials that are destroyed or that are rendered virtually valueless as a result of performing SR&ED. However, do not include expenditures for items such as cleaning supplies, DVDs, CDs, and test tubes used in SR&ED. Such items are supplies and are considered overhead expenditures.

If you purchase 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 tax year in which the materials are consumed or transformed (line 325). The cost of materials includes invoice costs, custom and excise duties, transportation, other acquisition costs, and storage costs.

References: *Income Tax Act* subclauses 37(8)(a)(ii)(A)(I), 37(8)(a)(ii)(A)(II), and 37(8)(a)(ii)(B)(V); *Income Tax Regulations* paragraph 2900(2)(a); Materials for SR&ED Policy; SR&ED During Production Runs Policy; SR&ED while Developing an Asset Policy

Line 325 – Cost of materials transformed

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

Note

There may be an SR&ED investment tax credit (ITC) recapture amount 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)(ii)(A)(II); *Income Tax Regulations* paragraph 2900(2)(a); Materials for SR&ED Policy; Recapture of SR&ED Investment Tax Credit Policy; SR&ED During Production Runs Policy; SR&ED while Developing an Asset Policy

Lines 340 and 345 – SR&ED contracts

You can claim expenditures for SR&ED contracts when a contractor or subcontractor performs 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. See also line 529.

Note

After 2013, any contract expenditure of the claimant made to an SR&ED performer must be reduced by any related expenditure of the SR&ED performer that is for capital property, or the use of, or the right to use, capital property (if the capital property were owned by the SR&ED performer).

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 an approved association, university, college, research institute, or other similar organization are considered to be third-party payments. In some cases a payment to a Canadian corporation resident in Canada could also be considered a third-party payment. 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.

Table 4 below, will help you distinguish between payments for SR&ED performed on your behalf (SR&ED contracts) and third-party payments.

Table 4 SR&ED contract or third-party payment?		
Characteristic	SR&ED contract	Third-party payment
Control of SR&ED Rights	Payer Exclusive	Performer Non-exclusive (generally published)
Number of funders	Usually limited to one payer	Multiple funders/payers
Type of SR&ED	Commercially focused	Often basic research or applied research

Separate the SR&ED 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 SR&ED investment tax credits (ITCs) in Part 4.

References: *Income Tax Act* subparagraphs 37(1)(a)(i), 37(1)(a)(i.01), 37(1)(a)(ii), and 37(1)(a)(iii), subclauses 37(8)(a)(ii)(A)(I) and 37(8)(a)(ii)(B)(II), paragraph 37(8)(b), subsection 37(13); Tax Folio Chapter S1-F5-C1 – Related persons and dealing at arm’s length; Assistance and Contract Payments Policy; Third-Party Payments Policy

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. See also line 529.

Line 345 – Non arm’s length contracts

Enter the amount you paid or that was payable to non-arm’s length (NAL) 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 SR&ED investment tax credit (ITC) purposes. Refer to line 541 for more details.

References: *Income Tax Act* subparagraph 37(1)(a)(i), subclauses 37(8)(a)(ii)(A)(I) and 37(8)(a)(ii)(B)(II), paragraph 37(8)(b), subsection 37(13); Tax Folio Chapter S1-F5-C1 – Related persons and dealing at arm’s length; Assistance and Contract Payments Policy

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

Enter the lease costs incurred before 2014 of equipment that was used all or substantially all (ASA) in the prosecution of SR&ED in Canada. Lease costs incurred after 2013 do not qualify for SR&ED tax incentives. If your tax year-end is before 2014, the SR&ED usage is determined as a percentage of the total operating time for the entire tax year. If your tax year-end straddles January 1, 2014, the SR&ED usage is determined as a percentage of the total

operating time for the period that relates to 2013. 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) [Repealed] and 37(8)(a)(ii)(B)(I); *Income Tax Regulations* paragraph 2900(3)(b); SR&ED Lease Expenditures Policy

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

Enter “0” if you are using the traditional method. If you are using the proxy method, enter half of the lease costs incurred before 2014 for equipment (other than general-purpose office equipment or furniture (GPOEF) that is used primarily for SR&ED.

If your tax year end is before 2014, the SR&ED usage is determined as a percentage of the total operating time for the entire tax year. If your tax year straddles January 1, 2014, the SR&ED usage is determined as a percentage of the total operating time for the period that relates to 2013. This means the operating time for 2014 will not be taken into account for tax years that straddle January 1, 2014. Lease costs incurred after 2013 do not qualify for SR&ED tax incentives.

Tip

When you use the traditional method you may be able to claim the lease costs incurred before 2014 of equipment used in SR&ED less than 90% of the time on line 360 as SR&ED overhead expenditures.

References: *Income Tax Act* subclause 37(8)(a)(ii)(B)(VI); SR&ED Lease Expenditures Policy

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 prosecution of SR&ED in Canada.

All overhead and other expenditures must be directly attributable to the prosecution of SR&ED or directly attributable to the provision of premises, facilities, or equipment for the prosecution of SR&ED, in Canada.

Overhead and other expenditures fall into the following categories:

- expenditures that are directly attributable to the prosecution of SR&ED, and
- expenditure that are for the provision of premises, facilities or equipment for the prosecution of SR&ED.

Expenditures that are directly attributable to the prosecution of SR&ED

Expenditures that are directly attributable to the prosecution of SR&ED include:

- directly related and incremental expenditures, and
- other salary or wages for the prosecution of SR&ED.

Directly related and incremental expenditures

Expenditures that are directly attributable to the prosecution of SR&ED include expenditures, or the portion of expenditures, that are directly related to the prosecution

of SR&ED and that would not have been incurred if such work had not occurred (incremental expenditures). See Table 5 for examples of such costs.

You must specifically identify each overhead expenditure for SR&ED and, where applicable, allocate a reasonable amount to SR&ED. You should 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 2012 tax year. SR&ED employees represent 25% of the total personnel of the corporation. Corporation A must demonstrate that the expenditure is directly related to the prosecution of SR&ED and that the expenditure is incremental, to claim any portion of the expenditure. For this purpose, Corporation A should identify each trip, have evidence supporting that each trip is attributable to SR&ED, and allocate the appropriate costs to SR&ED.

Other salary or wages for the prosecution of SR&ED

At 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 prosecution of SR&ED but who are not directly engaged in the SR&ED itself, at line 360. See Table 5 below for examples of such tasks.

Expenditures that are for the provision of premises, facilities or equipment for the prosecution of SR&ED

The following expenditures are directly attributable to the provision of premises, facilities, or equipment for the prosecution of SR&ED in Canada:

- Costs for maintaining premises, facilities, or equipment for the prosecution of SR&ED in Canada. See Table 5 for an example of such costs.
- Other expenditures, or portions of expenditures, directly related to the provision of premises, facilities, or equipment that you own and that would not have been incurred if you had not used them for the prosecution of SR&ED (incremental expenditures). 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.

You must specifically identify each overhead expenditure for SR&ED and, where applicable, allocate a reasonable amount to SR&ED. You should be prepared to explain how you determined the amount, provide support for this determination, and where applicable, demonstrate that the overhead expenditures are directly attributable to the provision of premises, facilities or equipment for the prosecution of 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 prosecution 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 exclusively 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.

Table 5 below, will help you determine what qualifies as overhead and other expenditures in the prosecution of SR&ED under the traditional method.

Table 5			
Overhead and other expenditures for SR&ED			
	Directly attributable	Must be directly related and incremental	Costs must be: Specifically identified (SI) or Reasonable % allocated (R%A)
Salary or wages for the prosecution of SR&ED (other than directly engaged) claimed as “other expenditures”			
Salary or wages 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 are directly attributable to the prosecution of SR&ED work (for example, long-term planning for future SR&ED projects, contract administration). Tip: Under the traditional method, the portion of salary or wages which are claimable at line 360 – overhead and other expenditures, should be included in the calculation of “Amount B” at line 307.	X		SI
Expenditures that are directly related to the prosecution of SR&ED and incremental.			
Employer’s share of related benefits paid for employees who directly undertake, supervise, or support the SR&ED work (such as Canada Pension Plan/Quebec Pension Plan, employment insurance, Worker’s Compensation Boards, 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 prosecution of SR&ED in Canada.	X	X	SI
Other costs relating to SR&ED work performed in Canada (for example, 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 SR&ED, for expenditures incurred before 2014.	X	X	SI
Contract costs for work that is not SR&ED (for example, work of electricians, welders, mechanics) that are directly related to the prosecution of SR&ED and incremental.	X	X	SI
See Table 3 – Tasks 9 and 11 to 13	X	X	SI
Expenditures that are for the provision of premises, facilities, or equipment for the prosecution of SR&ED			
Cost of maintenance of premises, facilities, or equipment for the prosecution of SR&ED in Canada (for example, costs for cleaning, painting, servicing equipment).	X		SI
Other expenditures directly related to the provision of premises, facilities, or equipment for the prosecution of SR&ED and incremental to the SR&ED (for example, property taxes and insurance on a building that you own, insurance for equipment owned by you).	X	X	R%A

References: *Income Tax Act* subclauses 37(8)(a)(ii)(A)(I) and 37(8)(a)(ii)(A)(II); *Income Tax Regulations* paragraphs 2900(2)(b) and 2900(2)(c), subsection 2900(3); SR&ED Overhead and Other Expenditures Policy

Line 370 – Third-party payments

A third-party payment is generally a payment that you made to an approved association, university, college, research institute, or other similar institution. A 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. Third-party payments refer to amounts paid for SR&ED not directly undertaken by you or on your behalf. For a list of the approved entities, consult Appendix A of the Third-Party Payments Policy. If an entity is not listed in Appendix A, contact the entity in question with respect to their status as an approved entity.

After 2013, any third-party payment of the claimant made to an SR&ED performer must be reduced by any related expenditure of the SR&ED performer that is for capital property, or the use of, or the right to use, capital property (if the capital property were owned by the SR&ED performer).

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. (See lines 340 and 345 for an explanation of the difference between third-party payments and SR&ED contracts.)

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 by 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 Section 8 of the Third-Party Payments Policy.

Farm producers are required to file either Schedule T2SCH31 or Form T2038(IND) to receive investment tax credits (ITCs) on third-party payments (check-offs) made to agricultural organizations. However, they do not need to file Form T661 or Form T1263 if they are only claiming check-offs for the tax year.

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); Third-Party Payments Policy; 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 – line 380 is the total of lines 306 to 370, 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 on your individual income tax and benefit return.

Line 390 – Capital Expenditures

Enter the amount of SR&ED capital expenditures incurred before 2014. Expenditures of a capital nature made after 2013 do not qualify for SR&ED tax incentives.

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 life in the prosecution of SR&ED in Canada; or
- consume ASA of its value in the prosecution 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. You should keep a list of capital items you acquired in the tax year for SR&ED and claimed as capital expenditures.

You cannot claim the property as a capital expenditure until the property becomes available for use. Therefore, expenditures incurred before 2014 for property that became available for use after 2013 do not qualify for SR&ED tax incentives.

You should consider the intended use of the property in the year you claim the expenditure as well as over the expected useful life of the property.

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

Example

Before 2014, a claimant acquires land, a building, and equipment to be used ASA in the prosecution of SR&ED. The only eligible expenditure is the equipment, given that the equipment was available for use before 2014. 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 SR&ED investment tax credit (ITC) recapture. There may also be a recapture of capital cost allowance (CCA). Refer to line 440 for further details on the recapture of CCA.

Tips

1. The capital expenditures claimed on line 390 must not be included on Schedule T2SCH8, *Capital Cost Allowance (CCA)*.
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.
3. There may be an SR&ED investment tax credit (ITC) recapture when you sell the SR&ED property or convert it to commercial use.

References: *Income Tax Act* paragraph 37(1)(b) [Repealed], subparagraph 37(8)(d)(i), subclauses 37(8)(a)(ii)(A)(III) [Repealed] and 37(8)(a)(ii)(B)(III) [Repealed]; *Income Tax Regulations* subparagraph 2902(2)(b)(ii); Recapture of SR&ED Investment Tax Credit Policy; SR&ED Capital Expenditures Policy

Line 400 – Total allowable SR&ED expenditures

Allowable SR&ED expenditures are the total current and capital expenditures you made in the tax year. On line 400, enter the total of the amounts from 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 to be deducted in determining your net income or loss for income tax purposes. The pool concept gives you the option of deducting the SR&ED expenditures available for the tax year or any portion thereof. Any unclaimed balance can 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 tax year, you have received, are entitled to receive, or can reasonably expect to receive assistance for SR&ED expenditures that you are claiming in the tax year, include the assistance on lines 429, 431, and 432, as appropriate. This will reduce your pool of deductible SR&ED expenditures.

If you are using the proxy method, you do not deduct any assistance for expenditures that the prescribed proxy amount (PPA) represents.

Note

The assistance that you include on lines 429 to 432 should not be included in determining your net income or loss for income for tax purposes.

Line 429 – Provincial/territorial government assistance

Enter the amount of provincial/territorial government assistance you have received, are entitled to receive, or can reasonably expect to receive for SR&ED expenditures that

you are claiming in the tax year. This includes the provincial/territorial SR&ED or R&D tax credits, and any forgivable loans, grants, subsidies, deductions from tax, investment allowances, or other forms of assistance from provincial/territorial governments.

If your provincial/territorial government assistance includes an amount in respect of a capital expenditure, which was not incurred, or in which the asset was not available for use, until after December 31, 2013, you do not report this amount at line 429.

For information, refer to our Summary of provincial and territorial research and development (R&D) tax credits.

Note

For some provincial R&D tax credit programs, you must renounce the credits by the income tax return filing due date. Otherwise, we consider that you are still entitled to receive it and the amount will be treated as assistance in calculating the pool of deductible SR&ED expenditures even if you have not claimed the credit.

For those provinces where the renouncing option is available, you can renounce the credit by filing the provincial R&D tax credit form or by sending a letter expressing your intent to the tax centre that normally processes your return.

Line 431 – Other government assistance

Enter the amount of other government assistance you have received, are entitled to receive, or can reasonably expect to receive for SR&ED expenditures that you are claiming in the tax year. This includes forgivable loans, grants, subsidies, deductions from tax, investment allowances, or other forms of assistance from federal or municipal governments or public authorities, but it excludes the federal SR&ED investment tax credit (ITC).

Line 432 – Non-government assistance

Enter the amount of non-government assistance you have received, are entitled to receive, or can reasonably expect to receive for SR&ED expenditures that you are claiming in the tax year. This includes inducements and other assistance that you received from other entities including corporations.

References: *Income Tax Act* subsection 127(9), paragraphs 12(1)(x) and 37(1)(d); Assistance and Contract Payments Policy

Line 435 – SR&ED ITCs applied and/or refunded in the prior tax year

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

1. SR&ED ITC refunds;
2. the SR&ED ITC used to reduce tax payable (ITC applied); and
3. the SR&ED ITC you carried back to previous years (ITC carried back).

Do not include the portion of the SR&ED ITC that relates to shared-use equipment (SUE). When an SR&ED ITC

deducted or refunded may reasonably be considered to relate to a property acquired in a preceding tax year such 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 on line 435 by adding lines 510, 560, 580, 610, 911, 912, and 913 of the prior tax year's Schedule T2SCH31; individuals can use the resulting amounts on lines 6712 and 6715 of the prior tax year's 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); SR&ED Investment Tax Credit Policy

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

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

- a) the proceeds of disposition; and
- b) the amount of unclaimed expenditures included on line 450 for the asset.

For an example, refer to Section 9.1 of the SR&ED Capital Expenditures Policy.

Other deductions

In certain cases, other deductions may have to be made to the pool of deductible SR&ED expenditures (for example, 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) [Repealed], and 37(1)(d); *Income Tax Regulations* paragraph 1102(1)(d)

Line 445 – Repayments of government and non-government assistance

Enter the amount of assistance repaid in the tax 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). Enter the amount of assistance that you applied to reduce your pool of deductible SR&ED expenditures in prior tax years, but that you did not receive and that is no longer an amount that you reasonably expect to receive.

References: *Income Tax Act* subsection 127(10.8), paragraph 37(1)(c); Assistance and Contract Payments Policy

Line 450 – Prior tax year's pool balance of deductible SR&ED expenditures

Enter the pool balance of deductible SR&ED expenditures that you are carrying forward from the prior tax year.

Tip

You will find this amount on line 470 of the prior tax year's Form T661.

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

When a corporation is amalgamated with or wound up into another corporation, the predecessor corporation's pool of deductible SR&ED expenditures may be transferred to the successor corporation.

References: *Income Tax Act* subsection 37(1), paragraph 87(2)(l); Pool of Deductible SR&ED Expenditures Policy

Line 453 – Amount of SR&ED ITC recaptured in the prior tax year

Enter the amount of all SR&ED investment tax credit (ITC) recaptured in the prior tax year.

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

Tip

For corporations, see the prior tax year's Schedule T2SCH31, Part 17, line OO. For individuals, see the prior tax year's Form T2038(IND), page 4, line (iii).

References: *Income Tax Act* paragraph 37(1)(c.2); Recapture of SR&ED Investment Tax Credit Policy

Line 455 – Amount available for deduction

This amount represents the pool of deductible SR&ED expenditures that is available to be deducted in determining your net income or loss for income tax purposes.

If the amount is negative, enter "0" on line 455 and include the negative amount in determining your net income or loss for income tax purposes for the tax year. Corporations include the amount on line 231 of Schedule T2SCH1 and individuals would include this in their self-employment income (lines 135 to 143) on their individual income tax and benefit return.

References: *Income Tax Act* subsection 37(1), paragraphs 12(1)(v) and 37(1)(c.1); Pool of Deductible SR&ED Expenditures Policy

Line 460 – Deduction claimed in the tax year

Enter the amount you are claiming as a deduction in calculating your net income or loss for income tax purposes in the tax year. The deduction is optional. You may deduct all or a portion of your pool of deductible SR&ED expenditures calculated at line 455.

Note

If you are a corporation that has undergone an acquisition of control, or a trust and a person or group of persons have become majority-interest beneficiaries, you might not be able to claim the total amount on line 455 in the tax year or in a later tax year.

References: *Income Tax Act* subsections 37(1), 37(6.1), and 37(11), paragraph 37(1)(h); Pool of Deductible SR&ED Expenditures Policy

Line 470 – Pool balance of deductible SR&ED expenditures

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

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 an investment tax credit (ITC). You are to break down your expenditures between current and capital.

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

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

Enter any amounts identified on line 520 in prior tax years that were paid in the tax year of this claim. If you partially paid an SR&ED contract incurred after December 31, 2012 that was reported on line 520 of a prior tax year, add only 80% of the partial payment.

For an example of unpaid amounts (other than salary or wages), refer to section 4.1.1 of the Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy.

References: *Income Tax Act* subsection 127(26); Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy

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* sections 2900(4), 2900(6), 2900(7), 2900(8), 2900(9), and 2900(10); Prescribed Proxy Amount Policy

Line 504 – Expenditures on shared use equipment (SUE)

A partial SR&ED investment tax credit (ITC) can be earned on depreciable property acquired before 2014 and used primarily for the prosecution of SR&ED in Canada.

Shared-use treatment could apply to new equipment (that is not a prescribed depreciable property (PDP) used for both SR&ED and non-SR&ED purposes in two periods as described below (first and second term). The equipment is considered not to have been acquired until it has become available for use. Therefore, expenditures made before 2014 for property that became available for use after 2013 do not qualify for SR&ED tax incentives.

The shared-use rules are for SR&ED ITC purposes only. The SR&ED ITC calculation for SUE is the same regardless of whether the traditional method or the proxy method is used. The capital cost of 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 T2SCH8.

Tip

The SR&ED ITC earned on SUE and applied to reduce federal tax payable or refunded reduces the CCA class in the next tax year on Schedule T2SCH8.

The maximum amount on which an SR&ED 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.

First term is the period beginning at the time the equipment is acquired by you and ending at the end of the first tax year ending at least 12 months after the date of acquisition.

Second term is the period beginning at the time the equipment was acquired by you and ending at the end of the first tax year ending at least 24 months after the date of acquisition.

Tips

The first term SUE period can be as short as 12 months and a day and as long as 24 months less one day (12 months and 364 days). Therefore, the expenditure is not eligible for an SR&ED ITC in the tax 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 a day and as long as 36 months less one day (24 months and 364 days).

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

For an example of first term and second term SUE, refer to section 3.5 of the SR&ED Shared-Use-Equipment Policy

Table 6 below compares equipment acquired and available for use before 2014 that is all or substantially all (ASA) for SR&ED (line 390 of Form T661) and SUE (line 504 of Form T661).

ASA equipment	Shared-use-equipment
<ul style="list-style-type: none"> equipment intended to be used ASA in SR&ED throughout its useful life (must be available for use) 	<ul style="list-style-type: none"> equipment used primarily for SR&ED but also used for non SR&ED purposes (must be available for use)
<ul style="list-style-type: none"> included in the SR&ED pool of deductible SR&ED expenditures and earns SR&ED ITC 	<ul style="list-style-type: none"> earns SR&ED ITC and can claim CCA (capital cost allowance)
<ul style="list-style-type: none"> SR&ED ITC is earned on capital expenditures in the year of acquisition 	<ul style="list-style-type: none"> earns partial SR&ED ITC over the first and second periods after acquisition (as discussed above)
<ul style="list-style-type: none"> SR&ED ITC is earned on the full cost 	<ul style="list-style-type: none"> SR&ED ITC is earned on up to one-half of the cost

<ul style="list-style-type: none"> includes general purpose office equipment or furniture under the traditional method only 	<ul style="list-style-type: none"> excludes general-purpose office equipment or furniture under both the traditional and proxy methods
<ul style="list-style-type: none"> eligibility is based on intended use 	<ul style="list-style-type: none"> eligibility is based on actual use
<ul style="list-style-type: none"> must be new to earn SR&ED ITC 	<ul style="list-style-type: none"> must be new to earn SR&ED ITC
<ul style="list-style-type: none"> expenditures of a capital nature incurred after 2013 do not qualify for SR&ED tax incentives 	<ul style="list-style-type: none"> ITCs on SUE may still be claimed in tax years ending after 2013 and until February 1, 2017, in respect of first term SUE and second term SUE that was acquired before 2014

References: *Income Tax Act* subsections 37(1.2), 127(9), 127(11.2), and 248(19), paragraph 37(1)(b) [Repealed], subparagraph 37(8)(d)(i), subclauses 37(8)(a)(ii)(A)(III) [Repealed] and 37(8)(a)(ii)(B)(III) [Repealed]; SR&ED Capital Expenditures Policy; SR&ED Shared-Use-Equipment Policy

Lines 508 and 510 – Qualified expenditures transferred to you

If you contracted another party to carry out SR&ED on your behalf and you and the other party are not dealing at arm’s length (non-arm’s length), your expenditures for the contract do not qualify for SR&ED 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 you 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. The payer must report the agreed transferred amounts from lines 015 and 020 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.

Note

Expenditures for capital property or the right to use capital property made after 2013 will not qualify for SR&ED tax incentives. Only include lease costs of equipment from capital expenditures made before 2014 by the transferor (performer).

References: *Income Tax Act* subsections 127(13), 127(14), and 127(15); Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy; Tax Folio Chapter S1-F5-C1 – Related persons and dealing at arm’s length; Form T1146, *Agreement to Transfer Qualified Expenditures Incurred in Respect of SR&ED Contracts Between Persons Not Dealing at Arm’s Length*

Amounts included on lines 513 to 546 decrease your qualified SR&ED expenditures for ITC.

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

All assistance and contract payments that you have received, are entitled to receive, or can reasonably expect to receive in respect of SR&ED reduce the qualified SR&ED expenditures for ITC purposes regardless of whether the traditional method or the proxy method is used.

Lines 513 and 514 – Provincial/territorial government assistance

Enter the amount of provincial/territorial government assistance in respect of SR&ED. For a brief overview of what constitutes provincial/territorial government assistance, see the explanation for line 429. If your provincial/territorial government assistance includes an amount in respect of a capital expenditure which was not incurred, or the asset was not available for use, until after December 31, 2013, you do not report this amount at line 514.

Note

For some provincial R&D tax credit programs, you must renounce the credits by the income tax return filing due date. Otherwise, we consider that you are still entitled to receive it and the amount will be treated as assistance in calculating the pool of deductible SR&ED expenditures even if you have not claimed the credit.

For those provinces where the renouncing option is available, you can renounce the credit by filing the provincial R&D tax credit form or by sending a letter expressing your intent to the tax centre that normally processes your return.

Lines 515 and 516 – Other government assistance (other than provincial and territorial R&D tax credits)

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

Lines 517 and 518 – Non-government assistance and contract payments

Enter the amount of non-government assistance and contract payments in respect of SR&ED. 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	\$12,500	\$25,000	\$12,500	\$50,000	Line 511 and/or 512
Less:					
Provincial SR&ED tax credits	(\$1,250)	0	(\$1,250)	(\$2,500)	Line 513 and/or 514
Other government assistance	0	(\$5,000)	0	(\$5,000)	Line 515 and/or 516
Non-government assistance and contract payments	(\$12,000)	0	(\$11,500)	(\$23,500)	Line 517 and /or 518
Net expenditures	(\$750)	\$20,000	(\$250)	\$19,000	If not allocated on a project-by-project basis, line 570 would equal \$19,000
Qualified SR&ED expenditures	0	\$20,000	0	\$20,000	If allocated on a project-by-project basis, line 570 would equal \$20,000

The excess funding of \$750 and \$250 received for projects 1 and 3 (respectively) 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 SR&ED expenditures from \$19,000 to \$20,000. The \$20,000 is eligible for an SR&ED investment tax credit (ITC) on line 570.

Note

If the SR&ED work on projects 1 and 3 is not continued or completed until a later year, the excess assistance of \$1,000 received for these projects will be carried forward and applied to reduce your qualified SR&ED expenditures in that later 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); Assistance and Contract Payments Policy

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

Enter the amount of qualified current expenditures (other than salary or wages) incurred in the tax 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 tax year.

If the unpaid amount is in respect of an SR&ED contract incurred after December 31, 2012, only report 80% of the unpaid contract amount on line 520.

Although your unpaid expenditures do not qualify for SR&ED investment tax credit (ITC) purposes until the time you pay them, they are still allowable SR&ED expenditures (other than unpaid salary or wages) in the tax year you incurred the expenditure.

For an example of unpaid amounts (other than salary or wages), refer to section 4.1.1 of the Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy.

References: Income Tax Act subsection 127(26); Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy

Line 528 – Amounts paid in respect of an SR&ED contract to a person or partnership that is not a taxable supplier

Enter 80% of all amounts incurred after December 31, 2012 (and 100% of the amounts incurred before January 1, 2013) 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 a contract is given to a performer with whom you are not dealing at arm's length, enter the contract amount on line 541. 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 SR&ED expenditure for investment tax credit (ITC) purposes.

References: Income Tax Act subsection 127(9) definition of "qualified expenditure"; Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy

Line 529 – 20% of expenditures included on lines 340 and 370 that were incurred after December 31, 2012

Enter 20% of the expenditures included on line 340 (arm's length contracts) and line 370 (third-party payments) that were incurred after December 31, 2012. Starting January 1, 2013, only 80% of the expenditures for arm's length contracts for SR&ED performed on your behalf and third-party payments can be included as qualified SR&ED expenditures for investment tax credit (ITC) purposes.

Example

A company has a tax year from July 1, 2012, to June 30, 2013. The company engaged two arm's length contractors (A and B) to perform SR&ED on its behalf during the tax year. Contractor A performed the work from August 1, 2012, to November 30, 2012, for the amount of \$60,000. Contractor B performed the work from February 15, 2013, to June 10, 2013, and was paid \$25,000 for the work. The company also made a \$40,000 third-party payment to the local university on May 25, 2013 (see line 370 in this guide for the definition of third-party payment).

Amounts to enter on lines **340, 370, and 529**;

- Line 340 – \$85,000
- Line 370 – \$40,000
- Line 529 – \$13,000 $[(\$25,000 + \$40,000) \times 20\%]$

Reference: *Income Tax Act* subsection 127(9); Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy

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 SR&ED expenditures for investment tax credit 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 the 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. Note that expenditures of a capital nature made after 2013 do not qualify for SR&ED tax incentives. Only include amounts related to expenditures of a capital nature made before 2014.

References: *Income Tax Act* subsection 127(9); *Income Tax Regulations* section 2902; Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy

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 SR&ED investment tax credit (ITC) can only be generated when the income from the business, to which a particular expenditure relates, is subject to income tax.

Expenditures of a capital nature made after 2013 do not qualify for SR&ED tax incentives. On line 535, only include amounts related to expenditures of a capital nature made before 2014 that were not subject to income tax.

References: *Income Tax Act* subsection 127(9); Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy

Lines 538 to 546 – Non arm’s length transactions

Lines 538 and 540 – Assistance allocated to you

When an ongoing SR&ED project is performed by a related group (persons or partnerships with which the claimant is not dealing at arm’s length at the time the SR&ED is performed) and the amount of assistance for one of the members is in excess of its SR&ED expenditures, the excess amount of assistance must be allocated to the other members of the group. Assistance refers to government

assistance, non-government assistance, and contract payments as defined under lines 513 to 518.

The allocation of the unapplied assistance must be done using Form T1145, *Agreement to Allocate Assistance for SR&ED Between Persons Not Dealing at Arm’s Length*. Form T1145 should be filed with Form T661. The performer must report the agreed transferred amount on lines 538 and 540 of Form T661. Note that expenditures of a capital nature made after 2013 do not qualify for SR&ED tax incentives. Only include amounts related to expenditures of a capital nature made before 2014.

References: *Income Tax Act* subsections 127(19), 127(20), 127(21), and 127(22); Assistance and Contract Payments Policy; 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 the SR&ED investment tax credit (ITC). On line 541, deduct the amount you entered on line 345 for non-arm’s length (NAL) SR&ED contracts.

Tip

Expenditures you incurred for non-arm’s length SR&ED contracts are not considered to be qualified SR&ED expenditures 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 SR&ED investment tax credit purposes. 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) definition of “qualified expenditure”; Contract Expenditures for SR&ED Performed on Behalf of a Claimant Policy

Lines 542 and 543 – Adjustments to 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 or partnership with whom you do not deal at arm’s length at the time of the transaction, the amount of the qualified SR&ED expenditure for SR&ED investment tax credit (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 SR&ED expenditure. Note that expenditures of a capital nature made after 2013 do not qualify for SR&ED tax incentives. Only include amounts

related to expenditures of a capital nature made before 2014.

Tip

The amount of allowable SR&ED expenditures remains unchanged in the pool of deductible SR&ED expenditures.

For an example of the adjusted service cost calculation and the adjustment to qualified expenditures, refer to Appendix B.1.1 of the Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy.

For an example of the adjusted selling cost calculation and the adjustment to qualified expenditures, refer to Appendix B.2.1 of the Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy.

References: *Income Tax Act* subsections 127(11.6) to 127(11.8); Total Qualified SR&ED Expenditures for Investment Tax Credit Purposes Policy; IT 419

Lines 544 and 546 – Qualified expenditures you transferred

Enter the amount of qualified expenditures you transferred to a non-arm’s length party. See the explanation under lines 508, 510, and 541.

Line 559 – Qualified SR&ED expenditures

Enter the total of lines 557 and 558 on line 559. This is the qualified SR&ED expenditures for this tax year.

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

Enter the amount of assistance and contract payments repaid in the tax year that previously reduced your qualified SR&ED expenditures (the assistance or contract payment would have been included on lines 513 to 518 in prior tax years). Also, enter any amount of assistance or contract payment that previously reduced your qualified SR&ED expenditure but that you did not receive and that is no longer an amount that you can reasonably expect to receive.

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 term and second term SUE.

References: *Income Tax Act* subsections 127(9) and 127(10.8); Assistance and Contract Payments Policy

Line 570 – Total qualified SR&ED expenditures

This is your total qualified SR&ED expenditures for the purpose of calculating the SR&ED investment tax credit (ITC) for this tax year.

To claim an SR&ED ITC on this amount, use Schedule T2SCH31, *Investment Tax Credit – Corporations* (lines 557, 558, and 560 of Form T661 are reported on lines 350, 360, and 370 of T2SCH31) or Form T2038(IND), *Investment Tax Credit (Individuals)* (line 570 of 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 on which an SR&ED investment tax credit (ITC) can be earned with respect to SR&ED overhead and other expenditures. If you claim the prescribed proxy amount, you cannot claim 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 salary or wages of specified employees entered on lines 305 and 309, but this amount may be limited. See Table 7.

For an illustration of the differences between the expenditures for salary or wages you include in the pool of deductible SR&ED expenditures and those you include in the salary base, refer to Table 1 in the Prescribed Proxy Amount Policy.

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

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 salary or wages (incurred and paid in the tax year or paid within 180 days of the tax year-end) 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 – Multiply the amount in box 852 by the percentage in box 854.

Box 858 – Enter the maximum amount allowed for the tax year. To determine the maximum amount allowed for the tax year, use this formula: $2.5 \times A \times B \div 365$. In this formula, **A** is the year’s maximum pensionable earnings (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.

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

Table 7 illustrates the rules applicable to salary or wages of specified employees:

Table 7					
Illustration of rules for salary or wages of specified employees for 2014					
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 specified employee	Total salary or wages for the tax year (SR&ED and non SR&ED) excluding bonuses, remuneration based on profits, taxable benefits, and prior tax year’s unpaid salary or wages paid in the tax year	% of time spent on SR&ED (maximum 75%)	Amount in column 2 multiplied by percentage in column 3	$2.5 \times A \times B / 365$ A = \$52,500 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	\$131,250	\$25,000
Employee 2	\$50,000	75%	\$37,500	\$131,250	\$37,500
Employee 3	\$100,000	60%	\$60,000	\$131,250	\$60,000
Employee 4	\$100,000	75%	\$75,000	\$131,250	\$75,000
Employee 5	\$200,000	70%	\$140,000	\$131,250	\$131,250
Carry the total amount of column 6 to line 816 in Section A of Part 5					\$328,750
For employees 2 and 4, although 80% of the actual time was directly engaged in SR&ED in Canada, enter only 75% in column 3 (maximum % allowed).					
For each employee, \$131,250 is the maximum allowed for the 2014 year (as determined by the formula $2.5 \times \$52,500 \times 365 / 365$, 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 that are directly engaged in SR&ED and that qualify to be included in the salary base. This amount cannot exceed the total of lines 305 and 309 in Section B of Part 3.

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); *Prescribed Proxy Amount Policy*; *Canada Pension Plan* section 18

Section B – Prescribed proxy amount (PPA)

Line 820 – Prescribed proxy amount

The PPA is 65% of the salary base (line 818) for calendar years **prior to 2013**. The rate is reduced by 5% (to 60%) for the 2013 calendar year and by 10% (to 55%) for calendar years after 2013. The reduction is prorated for tax years that straddle January 1, 2013, or January 1, 2014.

Calculate the PPA using the formula below. Enter the PPA on line 502 of Form T661 unless the overall cap applies.

$$PPA = [A \times 65\%] - [A \times 5\% \times B/D] - [A \times 10\% \times C/D]$$

Where:

A = salary base

B = number of 2013 calendar days in the tax year

C = number of days after 2013 in the tax year

D = number of days in the tax year

Overall cap on PPA – The objective of the overall cap is to ensure that the total qualified SR&ED expenditures and PPA and other deductions specifically allowed under the *Income Tax Act* are not greater than the total business expenditures made in the tax year. The overall cap is calculated based on the total expenditures for tax purposes minus certain deductions allowed under other sections of the Act. These latter deductions are specifically identified by the *Income Tax Regulations*, for example, capital cost allowance (CCA), SR&ED deduction per line 411 of Schedule T2SCH1, building rent, and interest.

References: *Income Tax Act* subsection 127(9); *Income Tax Regulations* subsections 2900(4) and 2900(6); *Prescribed Proxy Amount Policy*

The following example illustrates the determination of the overall cap on the PPA.

Example**Overall cap calculation for 2014**

Income Statement		
Revenue		\$
Sales		100,000
Expenses		
Cost of goods sold		
Purchases	10,000	
Ending Inventory	(5,000)	
Subtotal		<u>5,000</u>
Other Expenses		
Salary or wages* (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>
Total expenses		<u>72,000</u>
Net Income		<u>28,000</u>

**Net income (loss) for income tax purposes
T2 - Schedule 1 (T2SCH1)**

		\$
Net income per income statement		28,000
Additions on Schedule T2SCH1		
Depreciation (line 104 of Schedule T2SCH1)	10,000	
Salary or wages* (SR&ED expenditures) (line 118 of Schedule T2SCH1)	<u>40,000</u>	
Total additions		50,000
Deductions on Schedule T2SCH1		
Capital Cost Allowance (CCA) from Schedule T2SCH8	5,000	
SR&ED deduction claimed in year (line 411 of Schedule T2SCH1)**	<u>20,000</u>	
Total deductions		<u>(25,000)</u>
Net income for income tax purposes		53,000

Note:

Salary or wages in the amount of \$40,000 was reported as the total current SR&ED expenditures on line 380 of Form T661.

The SR&ED deduction claimed in the amount of \$20,000 for the year was reported on line 460 of Form T661.

Overall cap on PPA

Step 1: Total deductions for income tax purposes	\$
Total expenses per income statement	72,000
Less: Additions related to expenses per Schedule T2SCH1	<u>(50,000)</u>
Add: Deductions related to expenses per Schedule T2SCH1	<u>25,000</u>
Total deductions for income tax purposes	47,000
Step 2: Deductions allowed under other sections of the <i>Income Tax Act</i>	
Interest	2,000
CCA	5,000
SR&ED deduction claimed in the year (line 411 of Schedule T2SCH1)	<u>20,000</u>
Total	27,000
Step 3: Deduction for the use of a building	
Building rent	5,000
Overall cap summary	
Step 1 - Total deductions for income tax purposes	47,000
Step 2 - Deductions allowed under other sections of the <i>Income Tax Act</i>	(27,000)
Step 3 - Deduction for the use of a building	<u>(5,000)</u>
Overall cap on PPA	15,000

Your PPA is the lesser of:

- | | |
|---|-----------------|
| a) the SR&ED PPA on line 820 of Form T661 ($\$40,000 \times 55\%$) or | \$22,000 |
| b) the overall cap on PPA as calculated above | \$15,000 |

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

Part 6 – Project costs

In this part you will provide cost information for all SR&ED projects claimed in the tax year. Expenditures should be recorded and allocated on a project basis.

Box 750 – Project title or identification code

Enter the title or identification code for each project. If you have an identification code and a title, enter both. The total number of projects listed in this column must equal the total number of projects claimed in the year and reported on line 050.

Box 752 – Salary or wages

Enter the salary or wages of employees allocated to each project who performed SR&ED work, including specified employees. The total for this column must equal the total of lines 300, 305, 307, and 309 in Part 3.

Note

Do not include amounts claimed on line 310.

Box 754 – Cost of materials

Enter the cost of materials consumed and materials transformed in SR&ED allocated to each project. The total for this column must equal the total of lines 320 and 325 in Part 3.

Box 756 – Contract expenditures

Enter contract expenditures for SR&ED performed on your behalf by arm's length and non-arm's length contractors for each project. The total for this column must equal the total of lines 340 and 345 in Part 3.

Part 7 – Additional information

In this part you provide information to Statistics Canada to help them gather data on research and development conducted in Canada.

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

Enter the total allowable expenditures for SR&ED performed by you in Canada. Ensure that you remove the expenditures for SR&ED performed outside Canada (lines 307 and 309), the 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. that you used in the prosecution of SR&ED 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, as well as 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, as well as 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 for 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, with 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 620 and 622 – Purpose of the work

The definition of SR&ED makes a distinction between basic research or applied research and experimental development. Tick the box that best reflects your project work.

In the event that some of the SR&ED projects claimed in the tax year involve experimental development and others involve basic or applied research, tick both boxes.

Line 620 – Basic or applied research. Tick 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. Results of this type of work are often published in scientific journals and other peer-reviewed publications.

Line 622 – Experimental development. Tick 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.

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 (FTEs).

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 = $1 + \frac{1}{4} + \frac{1}{4} + \frac{1}{4} + \frac{1}{4} = 2$ full time equivalents (FTE)s.

Part 8 – 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 Filing Requirements Policy

Part 9 – Claim preparer information

In this part, you must provide the prescribed information on each claim preparer that has accepted consideration to prepare or assist in the preparation of this SR&ED claim.

A penalty of \$1,000 may be assessed in respect of each SR&ED claim for which prescribed information about the claim preparer(s) is missing, incomplete or inaccurate. If a claim preparer has prepared or assisted in the preparation of the claim, the claim preparer will be jointly and severally, or solidarily, liable with the claimant for the penalty. The penalty applies in respect of claims filed on or after the later of January 1, 2014.

Line 935 – Was a claim preparer engaged in any aspect of the preparation of this SR&ED claim?

Tick box 1 if a claim preparer was engaged in any way in the preparation of this claim and complete the Claim preparer information table. If no claim preparer was engaged for this claim, check box 2 and complete lines 970 and 975.

Claim preparer means a person or partnership that has accepted consideration to prepare or assist in the preparation of the form but does not include an employee who prepares or assists in the preparation of the form in the course of performing their duties of employment.

Line 940 – Name of claim preparer (company or individual)

Enter the name of the claim preparer. If there is more than one, enter the name of each claim preparer on a separate line. Enter the name of the claim preparer on multiple lines if that claim preparer has a mixed billing arrangement or a contingency fee arrangement with variable rates. See example below.

Line 945 – Business number

Enter the business number (BN) of the claim preparer listed in column 940. Make sure that you enter all fifteen characters of the BN. For individuals you may provide the GST or HST number.

Line 950 – Billing arrangement code

Enter the type of billing arrangement code for the claim preparer as described in Part 9 in the list of Billing arrangement codes. For example, if the billing was based on a contingency fee as a percentage of the investment tax credit earned, enter code 1. If the claim preparer used a mixed billing arrangement, indicate the name of the claim preparer and each type of billing arrangement on separate lines. See example below.

Line 955 – Billing rate

Enter the billing rate for the arrangement. For example, if the claim preparer billed on a contingency fee basis (line 950, code 1) at a rate of 15.5% of the investment tax credit earned, enter 15.5. If you were billed at \$75 per hour (line 950, code 2), enter 75. If a claim preparer used a contingency fee arrangement with a variable rate (increasing or decreasing), indicate the name of the claim preparer and the various rates on separate lines. See example below.

Line 960 – Other billing arrangement(s)

If a claim preparer used a billing arrangement other than those identified under Billing arrangement codes in Part 9, you must describe the billing arrangement in box 960 in 10 words or less.

Line 965 – Total fee paid, payable or expected to pay

Enter the total fee paid, payable or expected to be paid to the claim preparer (s) for each billing arrangement.

Line 970 – Identification

Provide the name of the individual, authorized signing officer of the corporation, or authorized partner who has certified that the claim preparer information is complete and accurate.

Line 975 – Signature and date

The CRA requires Part 9 to be signed and dated by the individual, authorized signing officer of the corporation, or authorized partner who has certified that the claim preparer information in Part 9 is complete and accurate. 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 online number and password – make up your electronic signature, which is considered official.

Example: Part 9 Claim preparer information table:

This example will illustrate how to record various billing arrangements for the purpose of the Part 9 Claim preparer information table.

XYZ Inc. prepared the financial information in the SR&ED claim and used a contingency fee arrangement where a 15.5% fee was billed on the first \$10,000 of investment tax credit (ITC) earned and 6% on the next \$5,000 of ITC earned.

In addition, ABC Inc. prepared the project descriptions and had the following fee arrangement: A flat fee of \$1,500 plus \$75 per hour for a total of 5 hours.

940	945	950	955	960	965
Name of claim preparer (company or individual)	Business number	Billing arrangement code	Billing rate (percentage, hourly, daily, or flat fee)	Other billing arrangements (s) (maximum 10 words)	Total fee paid, payable, or expected to pay
XYZ Inc.	123456789000000	1	15.5		1,550
XYZ Inc.	123456789000000	1	6		300
ABC Inc.	987654321999999	2	75		375
ABC Inc.	987654321999999	4	1,500		1,500
				Total	3,725

References: Income Tax Act subsections 162(5.1), 162(5.2), 162(5.3)

Part 10 – 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 (such as Forms, T1174 *Agreement Between Associated*

Corporations to Allocate Salary or Wages of Specified Employees for Scientific Research and Experimental Development (SR&ED) and T1263, Third-Party Payments for Scientific Research and Experimental Development (SR&ED)). 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 online number and password – make up your electronic signature, which is considered official.

Line 175 – Name of person/firm who completed this form

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

Partnerships

There are special requirements that apply to partnerships that sometimes differ from the general requirements in this guide. This section outlines the information the CRA needs in order to process an SR&ED claim when 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 in this guide.

SR&ED expenditures – Form T661

A partnership's SR&ED expenditures must be deducted in the calculation of the partnership's net income or loss in the tax year they are incurred. A partnership will not have a pool of SR&ED expenditures to carry forward to future tax 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 when filing Form T661 with their corporate or individual income tax return.

SR&ED filing requirements for partnerships and partners

The filing requirements of the partnerships and partners differ depending on whether or not a T5013-FIN partnership financial return is filed by the partnership. For a complete explanation of the requirements for filing the T5013-FIN, see Guide T4068, *Guide for the Partnership Information Return*.

Since the SR&ED expenditures are deducted at the partnership level, the partnership should file 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.

If the T5013-FIN partnership financial return is filed or is required to be filed, the partnership should file the following documents:

- Form T661 of the partnership
- the calculation and allocation of the SR&ED investment tax credit (ITC) of the partnership to its partners

To facilitate processing, Form T661 should be filed with the partnership information return no later than 12 months after the earliest of all filing-due-dates for the return of income of the partners (members) for the tax year in which the partnership's fiscal period ends (refer to Guide T4068, *Guide for the T5013 Partnership Return*, for the filing due dates and requirements for partnerships).

A partner can file Form T661 on behalf of the partnership, but the SR&ED claim will not be processed unless a partnership information return, which agrees with Form T661, has been filed.

The **partners** should file the following documents:

- Schedule T2SCH31 or Form T2038(IND)
- Form T5013, *Statement of Partnership Income*

File your Schedule T2SCH31 with your T2 Corporation Income Tax Return or Form T2038(IND) with your T1 individual income tax and benefit return and Form T5013, *Statement of Partnership Income* at the tax centre that normally processes your return on or before the partners' respective SR&ED reporting deadlines.

If the T5013-FIN partnership financial return is not required to be 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
- the calculation and allocation of the SR&ED ITC of the partnership to its partners
- Form T2038(IND)

File the above information with your T1 individual income tax and benefit return at the tax centre that normally processes your return on or before the partners' respective SR&ED reporting deadlines.

Example

Calculation and allocation of the SR&ED ITC of the partnership

This example illustrates the calculation and allocation of the SR&ED ITC of a partnership to its partners.

Calculation of the SR&ED ITC

ABC Partnership files Form T661 for the tax year 2010

Qualified SR&ED expenditures reported on line 570 of Form T661	\$ 345,800
SR&ED ITC rate	× 20%
Total SR&ED ITC earned	\$ 69,160

Allocation of SR&ED ITC earned for tax year 2010 to the partners

ABC Partnership has the following two partners:

Partner D – 60% partnership interest

Partner E – 40% partnership interest

If the partners were corporations:

Partner D \$69,160 × 60% \$41,496

Partner E \$69,160 × 40% \$27,664

Include on line 550 of the partner D's Schedule T2SCH31

Include on line 550 of the partner E's Schedule T2SCH31

or

If the partners were individuals

Partner D \$345,800 × 60% \$207,480

Partner E \$345,800 × 40% \$138,320

Include on line 6712 of partner D's Form T2038(IND) to calculate 20% SR&ED ITC

Include on line 6712 of partner E's Form T2038(IND) to calculate 20% SR&ED ITC

References: Income Tax Act subsections 96(1), 127(8), 127(12), 127(12.1), and 248(1); Income Tax Regulations subsections 229(1) to (6); SR&ED Filing Requirements Policy; SR&ED Claims for Partnerships Policy; Guide T4068, Guide for the T5013 Partnership 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 names of the partners.

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

Lines 151 to 157 – Partnership information

Line 151 – Indicate whether or not the T5013-FIN partnership financial return was filed.

Lines 153 to 157

(Complete these lines only if you responded **no** at line 151.)

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

Lines 160 and 162 – Choice of method

It is important to note that the selection cannot be changed for the tax year once the claim is filed.

Line 160 – Tick this box if the partnership elects to use the proxy method. If a partnership elects to use the proxy method, the election is only valid if it was made on behalf of all the members of the partnership, such as by an authorized partner having the authority to act for the partnership. In other words, all the partners must be in agreement to use the proxy method.

Line 162 – Tick this box if the partnership chooses to use the traditional method.

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

For partnerships, you have to reduce the balance in the pool of deductible SR&ED expenditures by the amount of the SR&ED investment tax credit (ITC) earned in the **same tax 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 tax year

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

Line 470 – Pool balance of deductible SR&ED expenditures

For a partnership, enter "0."

Lines 508, 510, 544, and 546 – Transfer of qualified SR&ED expenditures between non-arm's length parties

A partnership cannot transfer qualified SR&ED expenditures to or receive them from a non-arm's length party.

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	
	Mathematics		Biological sciences
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	1.06.03	Mycology
	Computer and information sciences	1.06.04	Biophysics
1.02.01	Computer sciences	1.06.05	Genetics and heredity (medical genetics under code 3)
1.02.02	Information technology and bioinformatics (Software engineering and technology under 2.02.09) (hardware development under 2.02.08)	1.06.06	Reproductive biology (medical aspects under code 3)
	Physical sciences	1.06.07	Developmental biology
1.03.01	Atomic, molecular and chemical physics	1.06.08	Plant sciences & botany
1.03.02	Interaction with radiation	1.06.09	Zoology, ornithology, entomology & Behavioural sciences biology
1.03.03	Magnetic resonances	1.06.10	Marine biology, freshwater biology & limnology
1.03.04	Condensed matter physics	1.06.11	Ecology & biodiversity conservation
1.03.05	Solid state physics & superconductivity	1.06.12	Biology (theoretical, thermal, cryobiology, biological rhythm)
1.03.06	Particles and fields physics	1.06.13	Evolutionary biology
1.03.07	Nuclear physics		Other natural sciences
1.03.08	Fluids and plasma physics (including surface physics)	1.07.01	Other natural sciences
1.03.09	Optics (including laser optics and quantum optics)		
1.03.10	Acoustics		
1.03.11	Astronomy (including astrophysics, space science)		
	Chemical sciences		
1.04.01	Organic chemistry		
1.04.02	Inorganic and nuclear chemistry		
1.04.03	Physical chemistry, polymer science and plastics		
1.04.04	Electrochemistry (dry cells, batteries, fuel cells, metal corrosion, electrolysis)		
1.04.05	Colloid chemistry		
1.04.06	Analytical chemistry		
	Earth and related Environmental sciences		
1.05.01	Geosciences, multidisciplinary		
1.05.02	Mineralogy & palaeontology		
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	
	Civil engineering		Environmental engineering
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
	Electrical engineering, Electronic engineering & Information technology	2.07.05	Mining and mineral processing
		2.07.06	Marine engineering, sea vessels & ocean engineering;
2.02.01	Electrical and electronic engineering		Environmental biotechnology
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		Industrial biotechnology
2.02.06	Communication engineering and systems		
2.02.07	Telecommunications	2.09.01	Industrial biotechnology
2.02.08	Computer hardware and architecture	2.09.02	Bioprocessing technologies
2.02.09	Software engineering and technology	2.09.03	Biocatalysis & fermentation
	Mechanical engineering	2.09.04	Bioproducts (products that are manufactured using biological material as feedstock)
2.03.01	Mechanical engineering	2.09.05	Biomaterials (bioplastics, biofuels, bioderived bulk and fine chemicals, bio-derived materials)
2.03.02	Applied mechanics		Nano-technology
2.03.03	Thermodynamics	2.10.01	Nano-materials (production and properties)
2.03.04	Aerospace engineering	2.10.02	Nano-processes (applications on nano-scale)
2.03.05	Nuclear related engineering (nuclear physics under 1.03.07)		Other engineering and technologies
2.03.06	Acoustical engineering		
2.03.07	Reliability analysis and non-destructive testing	2.11.01	Food and beverages
2.03.08	Automotive and transportation engineering and manufacturing	2.11.02	Oenology
2.03.09	Tooling, machinery and equipment engineering and manufacturing.	2.11.03	Other engineering and technologies
2.03.10	Heating, ventilation and Air conditioning engineering and manufacturing		
	Chemical engineering		
2.04.01	Chemical engineering (plants, products)		
2.04.02	Chemical process engineering;		
	Materials engineering		
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)		
	Medical engineering		
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	
	Basic medicine		Health sciences
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		Medical biotechnology
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
	Clinical medicine	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		Other medical sciences
3.02.04	Cardiac and cardiovascular systems	3.05.01	Forensic science
3.02.05	Haematology	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	
	Agriculture, Forestry, and Fisheries		Veterinary science
4.01.01	Agriculture	4.03.01	Veterinary science (all)
4.01.02	Forestry		Agricultural biotechnology
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)		Other agricultural sciences
	Animal and Dairy science	4.05.01	Other agricultural sciences
4.02.01	Animal and dairy science		
4.02.02	Animal husbandry (animal biotechnology under 4.04.01)		

The following fields of science are specifically excluded under subsection 248(1) of the *Income Tax Act*, definition of “scientific research and experimental development” 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 (for example, information, records, documentation) to substantiate that the scientific research and 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 supporting documentation that were 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 documents and other items the CRA reviewers generally consider as supporting evidence. However, the lack of detailed 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 a first-time claimant. In such a case, the CRA should be consulted to help you identify other types of supporting evidence that could be used 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 (for example, documents generated as the SR&ED was being carried out). In fact, contemporaneous documentation that is dated, signed, and specific to the work performed are 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 in 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 the 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; and
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 in 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 Guide RC4409, *Keeping Records*. Typical financial records and documents that may be requested during the financial review include 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 documents and information to support the specific expenditures claimed on Form T661. This includes but is not limited to:

- cost breakdowns per project for each line item in Part 3 of Section B of Form T661;
- the 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 documents that support the SR&ED use of equipment (incurred before 2014) for the period;
- documents to support third-party payments such as to whom and for what the payments were made;
- supporting schedules such as the reconciliation of amounts on Form T661 to the financial statements;
- supporting schedules to reconcile capital expenditures (incurred before 2014) on Schedule T2SCH8, *Capital Cost Allowance*, and Form T661 to the financial statements;
- schedules to support the SR&ED investment tax credit (ITC) recapture 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;
- how the work claimed was related to the scientific or technological advancement 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, when the SR&ED is carried out in a commercial environment.

Table 1 - Examples of supporting evidence for SR&ED work claimed

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 (for example, by placing a tick mark in the box). More than one type of supporting evidence could be ticked in each column. A shaded box means that generally this type of supporting evidence does not apply to the related lines in the corresponding column.

- b) If you have supporting evidence that is not listed in the table, identify it in the row labelled "Others."

4. This table is only intended to be an aid; you do not have to complete it or 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.

The following table provides examples of evidence to support SR&ED work claimed.

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

Supporting evidence	Scientific or technological advancement sought	Scientific or technological uncertainties	Work done: experimentation, analysis, support work, progress	Start and end dates	Employees or people involved
	<i>T661 line 246</i>	<i>T661 line 242</i>	<i>T661 line 244</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					

Tax services offices

The CRA delivers the SR&ED Program through 7 co-ordinating tax services offices.

Co-ordinating tax services offices		Responsible area
Nova Scotia	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
Eastern Québec	165 de la Pointe-aux-Lièvres Québec QC G1K 5Y8 Telephone: 1-866-204-0101 extension 648-7151 or 418-648-7151 Fax: 418-648-5663	Chicoutimi, Québec, Rimouski, Sherbrooke and Trois-Rivières
Western Québec	3400 Jean-Béraud Avenue Laval QC H7T 2Z2 Telephone: 514-338-4198 or 1-888-784-8709 Fax: 514-338-4584	Laval, Montréal, Montérégie-Rive-Sud, Outaouais and Rouyn-Noranda
Toronto Centre	1 Front Street West, Suite 100 Toronto ON M5J 2X6 Telephone: 416-973-1717 Fax: 416-952-8334	Toronto Centre, Toronto East, and Toronto North Eastern, Ottawa, East Central and Northern Ontario, Nunavut
Toronto West – Thunder Bay	5800 Hurontario Street Mississauga ON L5R 4B4 Telephone: 905-566-6010 Fax: 905-566-6154	Hamilton, Kitchener-Waterloo, London, Mississauga, St. Catharines, Thunder Bay and Windsor
Southern Alberta	130 – 220 4th Avenue South East Calgary AB T2G 0L1 Telephone: 403-691-5890 Fax: 403-292-5751	Alberta, Manitoba, Northwest Territories, and Saskatchewan
Fraser Valley and Northern	1166 West Pender Street Vancouver BC V6E 3H8 Telephone: 1-866-317-0473 Fax: 604-691-3872	British Columbia and Yukon

Date modified: