



January 2013

Inside This Issue

1 Preview of
February 6, 2013
Tax Professionals
Group Seminar

1 Survey Says

2-4 Scientific Research &
Experimental
Development
Policy Update

4 Mandatory
Electronic Filing
Q&A

*This newsletter is
prepared by the Canada
Revenue Agency (CRA)
for the Toronto Centre
CRA & Professionals
Group*

Preview of February 6, 2013 Tax Professionals Group Seminar

CRA Strategic Directions

Derrick Smith, Director, Policy Integration and Coordination Division, Strategic Policy Directorate, Strategy and Integration Branch, Canada Revenue Agency

CRA's strategic directions evolved following a comprehensive strategic planning process to keep the Agency in step with Government of Canada priorities, global trends, technology, and taxpayer behaviour. The strategic directions serve as a guide as we move forward to strengthen and modernize how we administer taxes and benefits for Canadians. Derrick will focus on businesses and describe some of the challenges and opportunities we face, and what the CRA is trying to do to address them.

Scientific Research & Experimental Development Issues & Concerns

Elizabeth Koopman, Director, Technical Guidance Division, Scientific Research & Experimental Development Directorate, Compliance Programs Branch, Canada Revenue Agency

The presentation will provide an overview of recent issues and concerns raised in the review of SR&ED tax credit applications.

Current Cases

Cliff Rand, Partner, Stikeman Elliott LLP
Eric Noble, General Counsel, Department of Justice

Our discussion of current cases will include an update on recent decisions.

Survey Says

Once again we would like to thank you for taking the time to share your thoughts. The survey is a valuable tool that is used to identify future newsletter topics and breakfast seminar presentations and inform our decisions around our general approach. The highest rated topic from the November Seminar was Current Cases.

Some of your comments on the Seminar and presenters:

"Extremely interesting"
"Topical and relevant"

Scientific Research & Experimental Development (SR&ED) Policy Update – December 2012

After the Government of Canada tasked the Canada Revenue Agency (CRA) with improving the administration of the SR&ED program, including conducting a comprehensive review of SR&ED policies and procedures, the CRA implemented an SR&ED Policy Review Project. The CRA is pleased to announce the successful completion of this project and to release new, consolidated SR&ED policy documents.

The objectives of the SR&ED Policy Review Project, announced in November 2010, were to consolidate and clarify the SR&ED policy and related guidance documents that were current at that time, and to present the information in a user-friendly way on the CRA Web site.

Between November 2010 and February 2012, the CRA conducted public consultations on all of the consolidated SR&ED policy documents to make sure that different perspectives and ideas were considered and that the final presentation of the SR&ED policy information would meet the expectations of SR&ED claimants and other stakeholders.

The new format of the SR&ED policy documents will make it easier to update them regularly to reflect legislative changes, or improve understanding through, for instance, additional examples.

We encourage you to explore the new SR&ED Web pages and the consolidated SR&ED policy documents at:

<http://www.cra-arc.gc.ca/txcrdt/sred-rsde/clmng/srdfrmspblctns-eng.html>

and send us your feedback at
SRED_Policy-Politiques_RSDE@cra-arc.gc.ca.

Questions and answers on the consolidated SR&ED policy documents

1. When do the consolidated policy documents come into effect?

The consolidated policy documents come into effect immediately upon their release.

2. Have the policies and procedures changed?

No. The principles explained in the previous SR&ED publications have not changed. Changes have been made to the text to improve clarity and readability, and the policies have been updated to reflect legislative changes and jurisprudence. In addition, the policy information has been reformatted and restructured to present it in a user-friendly way on the CRA Web site.

3. What is the difference between the “Eligibility of Work for SR&ED Investment Tax Credits Policy” document and the “IC 86-4R3”?

In the IC86-4R3, the CRA had described three criteria—scientific or technological advancement, scientific and technical content, and scientific or technological uncertainty—that had to be satisfied for work to be deemed SR&ED.

In the Eligibility of Work for SR&ED Investment Tax Credits Policy document, using the definition of SR&ED as the starting point, the CRA has based its approach on answering five questions. This approach, established by the courts, essentially supplements how the three criteria are applied by providing a logical order for assessing them. It is important to note that both approaches (the three criteria and the five questions) are equivalent and assess the eligibility of the work in the same way. The following table shows the relationship between the three criteria and the five questions.

Continued...

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

4. What is the difference between the consolidated SR&ED policy documents and the previous financial policy documents?

The topics covered by the consolidated SR&ED policy documents closely match the lines of Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim*, and should help in preparing a claim. The information related to each policy is also cross-linked to other policies and the glossary of SR&ED terms, where applicable.

Also, based on the comments we received during the public consultations, the policy documents have been changed to make them easier to read and to ensure that the information is clear.

5. Where are the scientific and technical examples?

The SR&ED scientific and technical examples are being reviewed. Similar to the procedure followed during the consolidation of the SR&ED policy documents, we will post the draft versions of the scientific and technical examples on our Web site in 2013 for public consultations.

6. Will the consolidated policy documents create a greater burden for supporting evidence?

No. The requirement for supporting evidence stays the same. It is important to maintain supporting evidence (e.g. information, records, and documentation) to substantiate that the SR&ED work was performed and allowable expenditures have been incurred. Please refer to Appendix 2 of the latest version of the T4088 Guide for information on documentation and other evidence to support an SR&ED claim.

7. Will the CRA change Form T661 and Guide T4088 because of the release of these documents?

Yes. In October 2013, the CRA will release a revised Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim*, and Guide T4088, *Scientific Research and Experimental*

Continued...

Development (SR&ED) Expenditures Claim – Guide to Form T661, to reflect the changes related to the release of these documents and to accommodate the legislative changes coming into effect on January 1, 2014.

8. Do these documents reflect all the changes made to the SR&ED program that were announced in the 2012 Federal Budget?

No. Since the budget changes will come into effect on different dates, these documents will continue to be updated at different times in 2013.

9. What will happen to the previous SR&ED policy documents?

The previous publications, whose content has been captured in the consolidated SR&ED policy documents, will be archived on the CRA Web site as of December 31, 2012. To make a smooth transition to the new format, the CRA will keep both the previous publications and the consolidated policy documents on the CRA Web site for six months. After that, the previous publications will be removed. All other necessary documents (e.g. claim forms, guides, and brochures) will be retained. You can find a list of the SR&ED archived publications at

<http://www.cra-arc.gc.ca/txcrdt/sred-rsde/clmng/lstsdrchvdpblctns-eng.html>

Contact Us

We are always looking for issues to discuss. If you have a questions, comments or suggestions concerning the topics presented in this newsletter, or would like a topic addressed please email us at

TCTSO-TPG@craarc.gc.ca

Please note that your email address will not be shared and is strictly for the use of the Toronto Centre CRA & Profession Group.

Mandatory electronic filing – Q&A

Effective January 1, 2013, mandatory electronic filing applies to both T1 General (income tax and benefit returns) and T2 corporation income tax returns for 2012 and later tax years.

Q1. I am a tax preparer; how will this affect me?

A1. If you are an individual, a corporation or a partnership, and you accept payment to prepare more than 10 T1 General income tax and benefit returns or more than 10 T2 corporation income tax returns per year, you must file those returns electronically. An employee who prepares returns as part of their work duties is not a tax preparer.

Q2. Are there any exceptions to the new legislation?

A2. The following returns do not need to be filed electronically:

- returns for tax years before 2012;
- T1 General income tax and benefit returns filed after November 30;
- excluded T1 returns listed here: <http://www.efile.cra.gc.ca/l-xclsns-eng.html>; and
- T2 returns with restrictions, listed here: <http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/crpnt/rstrctns-eng.html>

Other exceptions apply if you are a tax preparer who:

- applied to use EFILE, but was not accepted; or
- had EFILE privileges suspended or revoked.

Q3. Are there penalties if I do not comply with the new legislation?

A3. If you are required to file electronically but do not comply, you may be charged a penalty of \$25 for each T1 General return that is paper-filed and \$100 for each T2 corporation return that is paper-filed.

For more information, go to

<http://www.cra-arc.gc.ca/esrvc-srvce/tx/prprs/mndtrylctrcnflng-eng.html>