

Looking to Stretch Your R&D Budget? San Diegans Get Creative Looking North

By Steve Scott, CONNECT Entrepreneur-in-Residence

Canadian Consul Sean Barr recently brought a team of top Canadian accounts and attorneys to San Diego to offer a program which saves American companies significantly on their research dollars. This program targets exactly the industries in which San Diego excels.

During the Connect Framework session held at Burnham Research Institute, participants discovered the details of programs which return up to 65% of research and development dollars back to the company. Canadian policy favors research in cleantech, biotech, multimedia, and ebusiness. If your company provides basic research, applied research, or experimental development jobs in Canada, this program certainly could work for you.

The CPAs (Deloitte) and attorneys (Growling) provided plenty of details showing the ways to reach maximum benefit. Basically, American companies participate in one of two ways with the programs.

A US corporation may setup a subsidiary in Canada to perform research. The subsidiary is eligible for a 20% tax credit (reduction) on R&D costs plus support services. The parent owns the technology and the subsidiary gets the tax credit.

The other method typically used is to partner with a Canadian research firm or investor to form a dedicated private Canadian company which will hire staff for research and development activities. The federal government then refunds 35% on the first two million of expenditures. Spend more than 2 million? Canada gives back 20% and more on tax reductions for costs which go beyond \$2 million. The chart below shows the benefits for both corporate structures spending \$5 million on qualified expenditures. Tech transfer between US and Canadian companies is no problem.

Credit Rate	Small Canadian-controlled Private Corporations			Large Canadian or Foreign-controlled Corporations				
	% Refund	Refundable Tax Credit (Cash Back)	Non-Refundable Tax Credit (Reduce Taxes)	Credit Rate	% Refund	Refundable Tax Credit (Cash Back)	Non-Refundable Tax Credit (Reduce Taxes)	
First \$3 million in SR&ED expenditures	35%	100%	\$1,050,000	–	20%	–	–	\$600,000
Remaining \$2 million in SR&ED expenditures	20%	40%	\$160,000	\$240,000	20%	–	–	\$400,000
Total			\$1,210,000	\$240,000			–	\$1,000,000

Here is the sweetest kicker. Most of the provincial governments provide another tax program on top of the federal program. These rates range between 10% in British Columbia to 35% in Quebec.

Want to learn more? The official site is <http://www.cra-arc.gc.ca/sred/>.

A quick overview is found at <http://investincanada.gc.ca/download/142.pdf>.

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Steve Scott is a professional CEO and CEO Confidential Advisor based in California. After 25 years improving bottom line performance as senior management (several times CEO), six acquisitions, several turnarounds and raising a few hundred million he know what he speaks about. Get Steve's insight on critical issues for CEOs and board members at meetstevescott.com. Connect to Steve at twitter.com/SteveScottCEO