



SR&ED in Canada

ALLOCATION OF LABOUR EXPENDITURES FOR SR&ED

*Pour vous servir encore mieux !
More Ways to Serve You!*



Agence du revenu
du Canada

Canada Revenue
Agency

Canada

Presentation Objectives

- 1. Purpose of this document**
- 2. General considerations**
- 3. Rules for SR&ED labour calculations**
- 4. Support for labour allocation**
- 5. Sources of supporting information**
- 6. R&D environment**
- 7. When is a labour allocation method acceptable?**

Purpose of this document

This document recognizes that:

- Claimants have systems to capture information on technical and financial aspects of an SR&ED project
- Systems range in complexity depending on the industry and size of the claimant
- Systems can be electronic or paper
- Various methods are currently used to allocate labour expenditures to SR&ED

Purpose of this document

This document:

- Provides guidance on acceptable labour allocation methods
- Can be used by claimants in preparing labour expenditure portion of an SR&ED claim
- Can be used by CRA financial reviewers in reviewing an SR&ED claim
- Does not address technical documentation for an SR&ED project

General considerations

Cost allocation methods

- Involve a systematic approach
- Provide a reasonable level of accuracy
- Will vary depending on:
 - Industry
 - Size of claimant's organization
 - Claimant's knowledge level of SR&ED program
 - Size of claim (\$)
- Will provide documentation to support the allocation method being used

General considerations

R&D environment

- Will influence the way information is gathered
- Nature and sources of information is a key consideration
- For the purpose of this document includes:
 - Distinct well-defined R&D projects
 - Dedicated R&D environments
 - Early stage or start-up business
 - Shop floor R&D

Rules for SR&ED labour calculations

Directly engaged salaries and wages (proxy method)

- Question of fact, not based on job title alone
- Involved in experimentation and analysis
- In direct support of experimentation or analysis
- Reported as directly engaged on the T661

Rules for SR&ED labour calculations

Directly attributable (traditional method)

- Directly undertakes, supervises or supports prosecution of SR&ED
- Reported as directly engaged on T661
- Directly related and incremental expenditures
- Reported as overhead on T661 (clerical and administrative support)

Rules for SR&ED labour calculations

All or substantially all (proxy or traditional method)

- Means 90% or more
- Employee deemed to have spent all of the time on SR&ED
- Must be evidence to support ASA test

Support for labour allocation

Must provide evidence that:

- Allocation method is appropriate for the claimant's environment
- Allocation method is consistent with legislation and administrative practices of the CRA
- Allocation system is functional throughout the year

Support for labour allocation

- Levels of information:
 - High-level (corporate or strategic concept level)
 - Medium-level (project level)
 - Low-level information (activity level)
- Each level offers a different view of the SR&ED project
- All levels may result in a reasonable allocation of labour expenditures to an SR&ED project
- In some cases the CRA will review supporting information at more than one level

Support for labour allocation

High-level (corporate or strategic concept level)

- Information about corporate and strategic objectives
- Strategic planning process
- Cost allocation and cost control systems
- Project planning process
- Provides context for allocation method
- May contain enough information to support an allocation
- Should be supported by medium level or low level information

Support for labour allocation

Medium-level (project level)

- Information relates to specific work effort
- Includes project plans, Gantt charts, time lines, resource allocation or utilization summaries, specific project control systems, and supervisor summaries
- Should identify employees and SR&ED work performed
- Should support high-level information

Support for labour allocation

Low-level information (activity level)

- Information relates to individual tasks
- Includes resource allocation or utilization summaries, time sheets and personal logs
- Effective system documents tasks and hours on a project-by-project basis
- Should support high-level and medium-level information

Sources of supporting information

Objective to provide key facts including:

- Names of employees
- Confirmation of employment (hire and termination dates)
- Employee vs. Contractor
- Identification of specified employee

Sources of supporting information

Potential sources of supporting information

- Development plans
- Supervisor summaries
- Time sheets
- Naturally generated information

R&D environment

Distinct well-defined R&D projects

- Personnel and resources assigned to specific R&D projects
- Project has well-defined technological objectives and distinct start and finish dates
- Support work can be identified and allocated to a project

Supporting information includes:

- Resource allocation or utilization summaries
- Project control systems
- Supervisor summaries
- Gantt charts
- Time Lines

R&D environment

Dedicated R&D environments

- Defined group of personnel work exclusively on R&D for new products or processes
- Dedicated R&D department might be involved in both SR&ED and non-SR&ED work

Supporting information includes:

- Supervisor summaries
- Resource allocation or utilization summaries
- Gantt charts
- Time lines
- Time sheets

R&D environment

Early state or start-up business

- Typically R&D is on new products or processes
- Personnel may focus on only one SR&ED project

Supporting information includes:

- Job descriptions
- Development plans
- Gantt charts
- Supervisor summaries
- Time sheets

R&D environment

Shop floor SR&ED

- Can occur in any industry
- Companies create new or improve existing materials, devices, products or processes
- Can involve a variety of employees from different parts of an organization

Supporting information includes:

- Planning documents
- Supervisor summaries
- Time sheets

When is a labour allocation method acceptable?

- Acceptable when the method is reasonable and properly supported
- Additional supporting information may be requested either orally or in writing
- If in writing a letter will explain:
 - That proper supporting information must be kept
 - What type of support information is expected in the future
 - That a site visit may take place in the future
- Expenditures that are not supported in a future period may not be treated as SR&ED