

How to Boost your Company's Finances with SR&ED

Agenda

- Updates on SR&ED
- COVID-19-related programs impact on future SR&ED claims
- How to maximize support programs without losing SR&ED
- How to prepare for a review in 2021
- Accrued SR&ED financing as a solution for cash shortfalls

SPEAKERS



Bryan Watson

Partner

Flow Ventures

bwatson@flowventures.com

@bwat



Adnan Hamid

Director of Finance

Flow Ventures

adnan@flowventures.com



Garron Helman

Chief Executive Officer

Venbridge

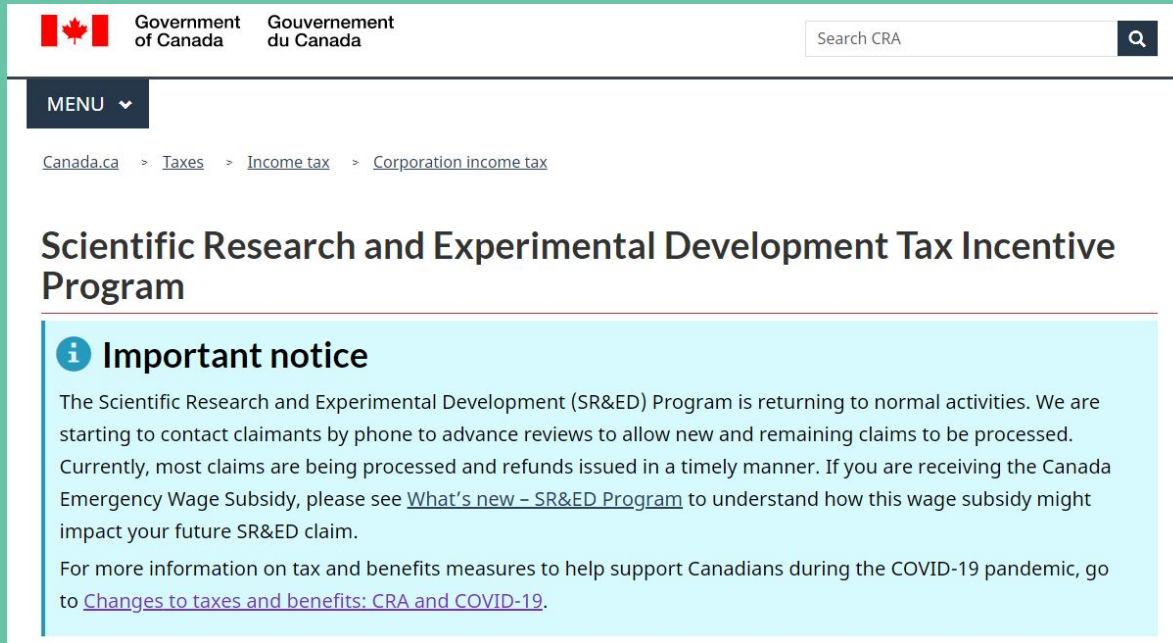
ghelman@venbridge.com

@venbridge

Updates on SR&ED

In March/April, ~\$200M backlog and ~1,600 claims under review. That backlog is cleared and claims being processed quite fast.

Audits were suspended, but as of mid-June, it's **business as usual**.



The screenshot shows the CRA website header with the Government of Canada logo and a search bar. Below the header is a navigation menu with a dropdown arrow. The breadcrumb trail reads: [Canada.ca](#) > [Taxes](#) > [Income tax](#) > [Corporation income tax](#). The main heading is "Scientific Research and Experimental Development Tax Incentive Program". Below this is a light blue box with an information icon and the title "Important notice". The text in the box states: "The Scientific Research and Experimental Development (SR&ED) Program is returning to normal activities. We are starting to contact claimants by phone to advance reviews to allow new and remaining claims to be processed. Currently, most claims are being processed and refunds issued in a timely manner. If you are receiving the Canada Emergency Wage Subsidy, please see [What's new - SR&ED Program](#) to understand how this wage subsidy might impact your future SR&ED claim. For more information on tax and benefits measures to help support Canadians during the COVID-19 pandemic, go to [Changes to taxes and benefits: CRA and COVID-19](#)."

The Effect of Government Support on SR&ED Claims

- Government assistance such as CEWS, IRAP, and Wage Subsidy must reduce SR&ED expenditures based on the assistance utilized for SR&ED efforts
 - E.g., if Employee A who is dedicated 100% to SR&ED is paid \$1,000 per week received maximum CEWS, \$847 will be backed out of \$1,000 and only \$143 will be claimed for wages
 - However, the 55% Overhead Proxy will still apply on the \$1,000 claimed for SR&ED because the step of removing government assistance comes after the SR&ED wages and Proxy is combined in SR&ED pool:

	Employee A	
SR&ED Qualified Salary for Week 1	\$ 1,000	A
Proxy	\$ 550	B
Total SR&ED Expenditure Pool	\$ 1,550	C = A+B
Government Assistance (i.e. CEWS)	-\$ 847	D
Net SR&ED Expense	\$ 703	C-D

The Effect of Government Support on SR&ED Claims

- **Finance related intricacies to ensure the correct amount of government assistance is backed out of the SR&ED expenditure pool:**
 - Which employees to adjust?
 - What time period to adjust?
 - How much to adjust per employee?
- Flow Ventures has over a decade of expertise across hundreds of clients in facilitating complex scenarios where government assistance was involved.
- Several SR&ED Claims with non-calendar year ends that included CEWS have already been filed and refunded this year.

CEWS Extended Until December

- As of July 13th... CEWS is now extended until December!
 - Maximum CEWS Per employee: ~\$35k
 - Annualized Salary for Max CEWS: \$58,725

	Scenario 1 Employees at \$60K each	Scenario: 2 Employees at \$75K each	Scenario: 3 Employees at \$100k each
Employees	9	9	9
Salary per Employee	\$ 60,000	\$ 75,000	\$ 100,000
Total SRED Salary	\$ 540,000	\$ 675,000	\$ 900,000
Proxy	\$ 297,000	\$ 371,250	\$ 495,000
Total SRED Eligible	\$ 837,000	\$ 1,046,250	\$ 1,395,000
Less: CEWS	\$ 316,899	\$ 316,899	\$ 316,899
Net SRED Eligible, net of CEWS	\$ 520,101	\$ 729,351	\$ 1,078,101
SRED ITCs			
OITC	\$ 41,608	\$ 58,348	\$ 86,248
ORDTC	\$ 16,747	\$ 23,485	\$ 34,715
Federal ITC	\$ 161,611	\$ 226,631	\$ 334,998
Total ITCs	\$ 219,966	\$ 308,464	\$ 455,961
ITCs as a % of SRED Salary	41%	46%	51%

How to Maximize Your SR&ED Claim & Government Incentives

- **In the current environment where:**
 - CRA had expedited claim and temporarily suspended SR&ED Audits
 - Government continues to commit assistance to businesses
 - There is a wide array of uncertainties for several sectors from a business continuity standpoint
- **We strongly advise companies to continue:**
 - **Leverage debt-based funding programs** (such as the Feddev RRRF) as these are repayable and all proceeds can be SR&ED-able
 - **Leverage equity-based funding** (e.g. VC investment matching programs) as these do not count against a company's SR&ED
 - **Focus any grants you can on marketing and business development expenses** to maximize your incentives without reducing your SR&ED.
 - Where you cannot.... Take full advantage of all government supports like CEWS! They may decrease your SRED, but access to immediate cash flow is more important right now!

How to Maximize Your SR&ED Claim & Government Incentives

- **Ensure your SR&ED is low risk:**
 - Track daily/weekly/monthly activities and project milestones
 - Review your evidence practices to substantiate SR&ED and enhance them
 - 2020 and 2021 are NOT the years to have lax evidence regimes
 - REMEMBER: “Applications approved during the current period may be subject to review or audit at a later date to confirm eligibility.”
 - Discuss all ongoing and potential projects with your SR&ED Consultant
 - Your SR&ED consultant should work with you throughout the year to help you plan and optimize your claim as well as your grants and other funding!
 - If CEWS/Wage Subsidy was received, keep detailed tracking of employees by week to ensure a clear and accurate adjustment to SR&ED projects costs
- **Ability to substantiate your SR&ED expenses is going to be your best friend in potential audits of the 2020/2021 fiscal years**

How to Prepare for A Potential Review in 2021

- The best way to de-risk your claim is a strong defence: **Strengthen your evidence NOW!**
- The item of top priority pre-COVID and in the current environment has always been robust record keeping of R&D projects. Record keeping as outlined by the CRA may include:
 - Project Planning Documents
 - Timesheets & contracts
 - Design of Experiments
 - Project Records, laboratory notebooks, and records of trial runs
 - Design, System Architecture and source code
 - Progress Reports, minutes of Project Meetings
 - Test protocols, test data
 - Photographs and videos
 - Samples, prototypes, scraps or other artifacts
- How CRA will tackle with the claims **approved during the *audit-suspended* period is uncertain**; the implications on refundable SR&ED claims vary from non-refundable SR&ED Claims (such as impact on *startups* versus *large* corporations)

Financing Accrued SR&ED

Benefits

- Better manage cash flow to re-invest in growth or get over a cash crunch
- Access your R&D investment as you spend it with quarterly disbursements
- Combine with filed SR&ED for a bigger facility

Criteria

- A minimum of \$15,000 per month in SR&ED-eligible expenditures
- A track record of successful SR&ED filing
- Reputable SR&ED consultant

SR&ED Financing

Fast

Designed for growing technology companies to access capital in days

Non-Dilutive

Grow your company without losing ownership

Flexible

Timing of payments & duration of facility are flexible to suit your business needs

How It Works

Apply Online

Answer a few questions and qualify for SR&ED Financing in minutes

Approval in 3 Days

Our accelerated due diligence process allows us to make quick financing decisions

Repay With Refund

Repay your loan when you receive your SR&ED refund

Improve Cash Flow with SR&ED Financing



Cash Flow
Without loan: -\$358k
With loan: -\$127k

Cash flow savings:
\$231k

Q&A