





SR&ED

*Presented by Jeff Christie, Partner, Boast Capital
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OUTLINE

- I. Overview of the SR&ED Program
- II. Benefits of Claiming SR&ED
- III. Case Study
- IV. CRA's Requirements
- V. Do's and Don'ts
- VI. Q&A



I. OVERVIEW OF THE SR&ED PROGRAM



WHAT IS SR&ED?

SR&ED

=

SCIENTIFIC RESEARCH AND
EXPERIMENTAL DEVELOPMENT



S-H-R-E-D

Commonly pronounced
"SHRED"

\$3.4
BILLION



APPLICABLE INDUSTRIES



**Software
Development & ICT**



Manufacturing



Bio Technology



**Oil & Gas and
Energy**



Agriculture

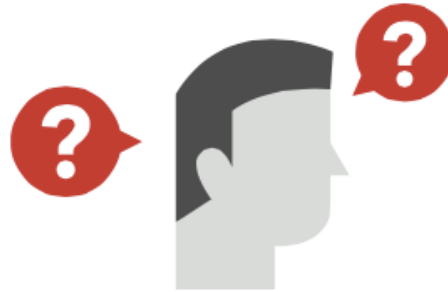
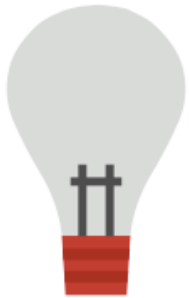


**ETC
and more**



QUALIFYING CRITERIA

Must meet three criteria to qualify for SR&ED:



1. Technological Challenges
2. Technological Uncertainty
3. Technical Content or Iterations



ELIGIBILITY

The CRA's 5 questions:

1. Was there a scientific or a technological uncertainty that could not be removed by standard practice/engineering?
2. Did the effort involve formulating a hypothesis specifically aimed at reducing or eliminating the uncertainty?

Continued...



ELIGIBILITY

3. Was the adopted procedure consistent with the total discipline of the scientific method, including formulating, testing, and modifying the hypothesis?
4. Did the process result in a scientific or technological advancement?
5. Was a record of the hypothesis tested and results kept as the work progressed?



EXAMPLES





II. SR&ED BENEFITS



WHO CAN CLAIM?

CCPC

**Canadian Controlled
Private Corporation**

NON-CCPC

**Foreign and/or Publicly
Owned Corporation**

SMEs = defined as generating less than \$500K taxable net income in the prior fiscal year.



SR&ED BENEFITS

Return rates for SME CCPCs:



SALARIES

~64%



SUB-CONTRACTORS

~32%



MATERIALS

~42%



REFUNDABLE ITCs



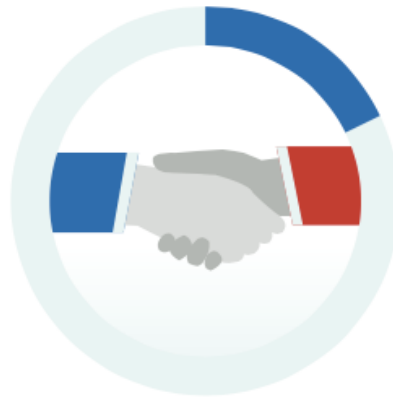
SR&ED BENEFITS

Return rates for non-CCPCs:



SALARIES

~36%



SUB-CONTRACTORS

~18%



MATERIALS

~24%



NON-REFUNDABLE ITCs

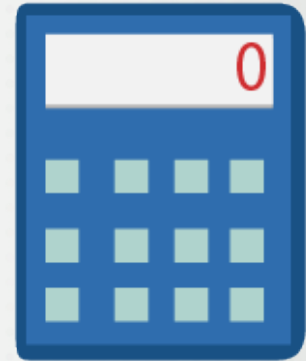


III. CASE STUDY



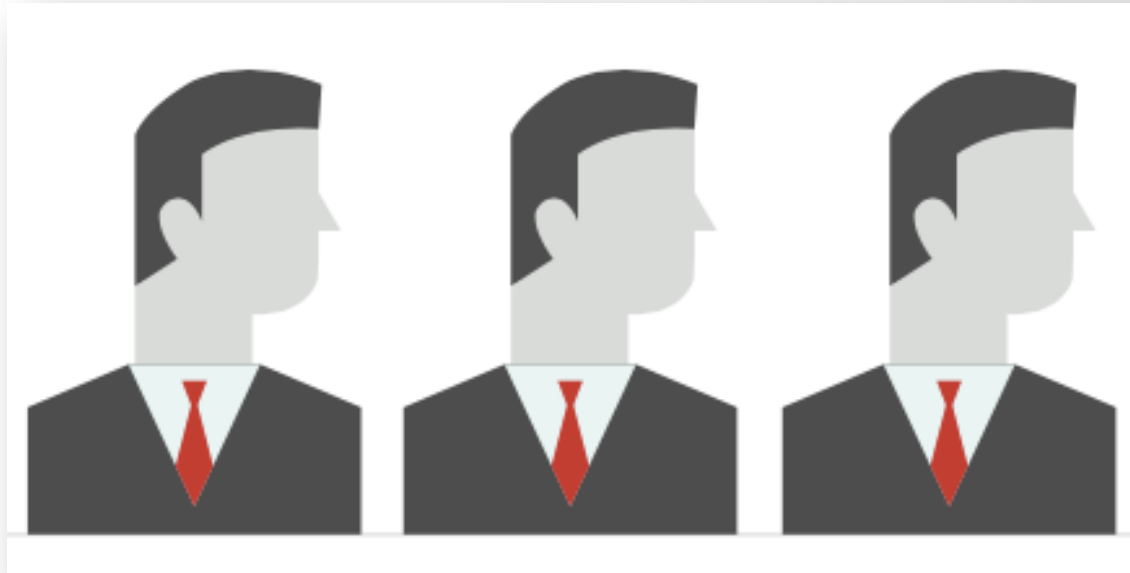
CASE STUDY

- Software company with operations in Vancouver (non-CCPC)
- 7 developers (1 front-end, 6 back-end)
- Salaries are \$75K per year and ~65% of time is eligible





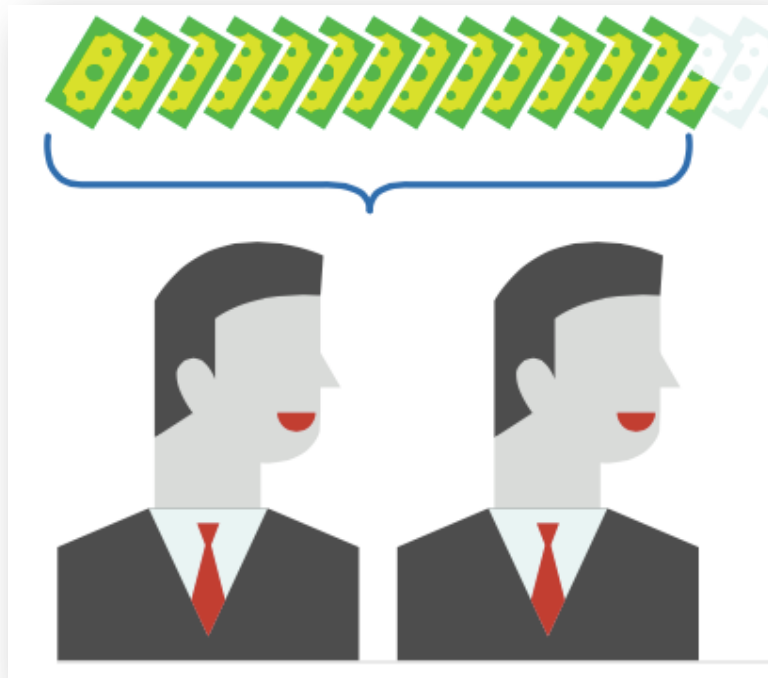
CASE STUDY



- Front end development not typically eligible
- Eligible expenditure pool for salaries would be ~\$292.5K ($\$75\text{K} \times 65\% \times 6$)
- Proxy overhead method and non-CCPC rates of return
- \approx \$93.6K worth of investment tax credits (ITCs)



CASE STUDY



If this was a CCPC, the company would receive \$187.2K worth of refundable ITCs (aka cash!)



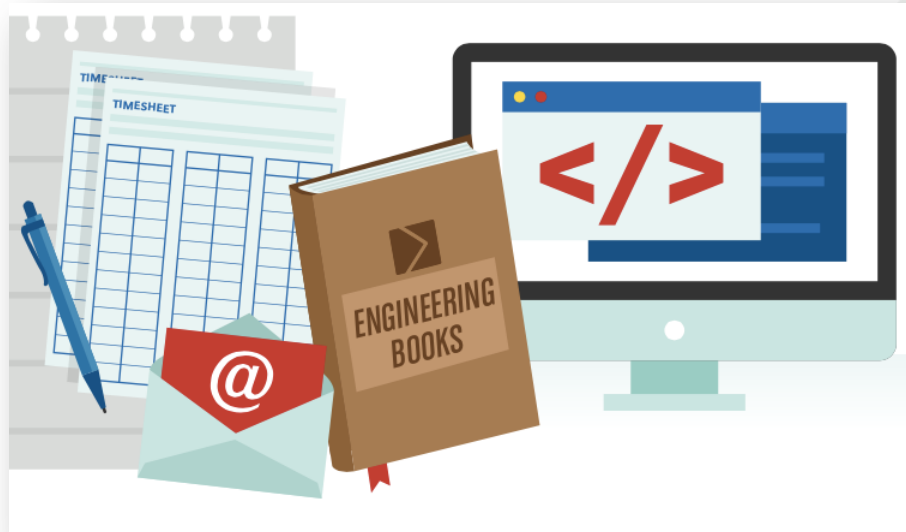
IV. CRA REQUIREMENTS



TECHNICAL DOCUMENTATION

CRA requires that SR&ED documentation must:

- Have been documented at the time the work was completed
- Highlight technical obstacles or challenges
- Be dated





TECHNICAL DOCUMENTATION

- Most important thing is to document the technical challenges/obstacles as the work progresses.
 - Capture: the problem and the iterations undertaken to attempt to resolve the problem
 - What are the different hypotheses and how was each hypothesis tested?

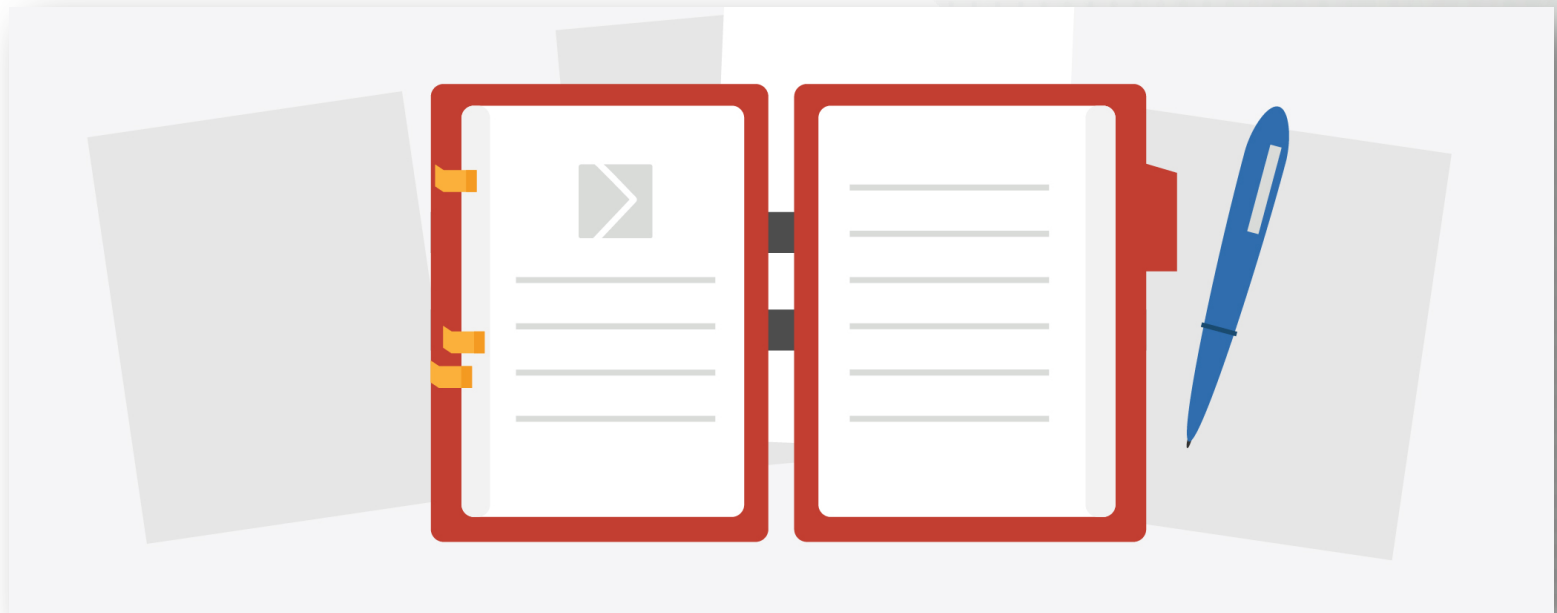


TECHNICAL DOCUMENTATION

- For a typical software project, only the major technical challenges/obstacles encountered by the team in a month need to be documented -- not every little problem.



TIME TRACKING





TIME TRACKING

Track time by project and activity

- For a software company, time should be tracked by the following activities:
 - Development
 - Testing
 - Project Management
 - Assignment of Resources
 - Technical Analysis
 - Technical Requirements
 - Non-SR&ED (catch all for time that doesn't fit into activities above)

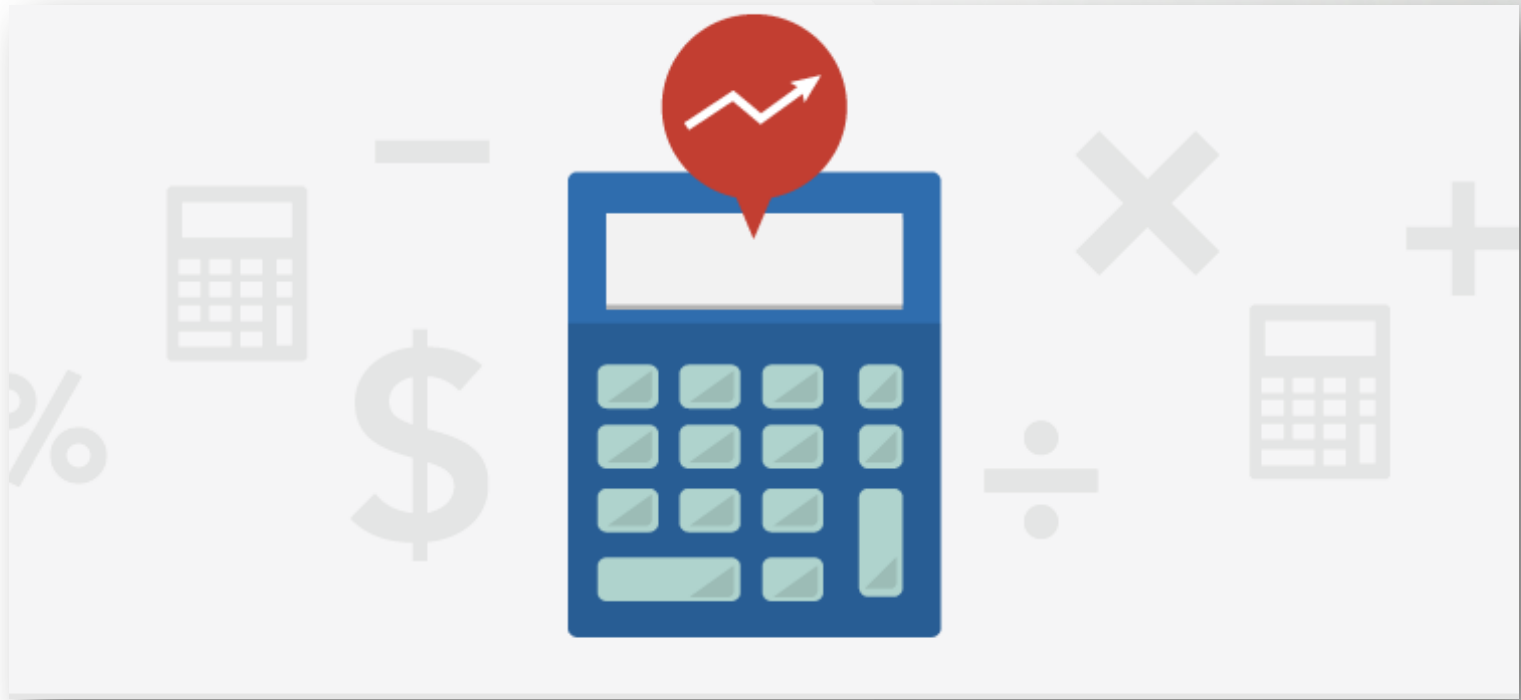


TIME TRACKING

- Any type of system can be used (i.e. Excel or web time tracking system)
 - Important thing is that time is tracked and broken down by project and activity
- Specified employees who are likely to be included in the claim, need to track time as well.
 - Time claimed for specified employees comes under additional CRA scrutiny
- Time sheets can be entered daily or weekly and at half or quarter day intervals
 - no need to be too precise; more important that time is captured

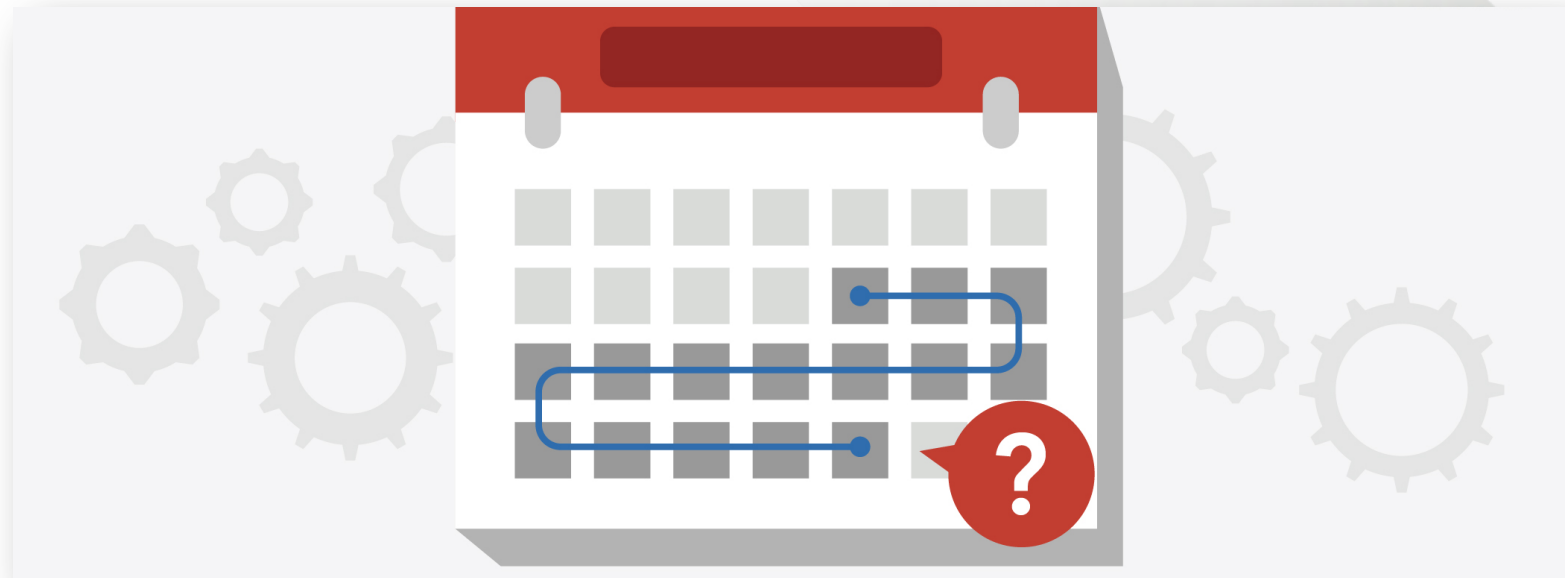


FINANCIAL STATEMENTS





WHEN TO CLAIM?



18 Months Past Fiscal Year End

- Current Claim = Within 6 mo
- Amended Claim = Within 7 to 18 mo



TURNAROUND TIMES

From receipt of a *complete claim*:

- CCPC Current Claim – 4 months
- CCPC Amended Claim – 8 months
- Non-CCPC Claim – 12 months

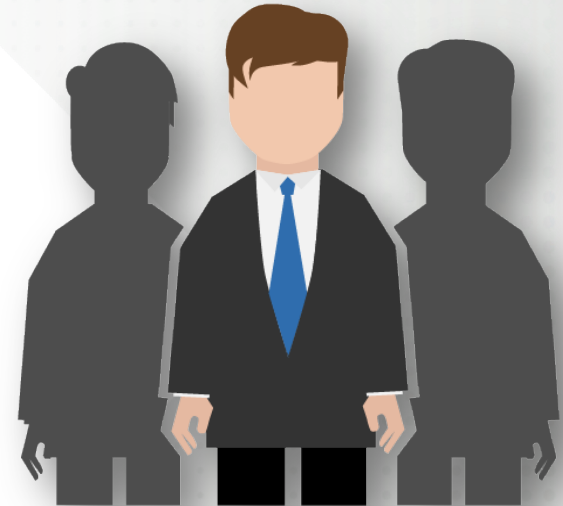


CRA REVIEWS

CRA Review \neq Tax Audit

Multiple types of Reviews:

- Desktop
- Financial
- Technical & Financial
- First Time Claimant Advisory Service (FTCAS)





IV. THE DO'S AND DON'TS



THE DO's

Do:

- Pay yourself and staff
- Start time tracking and proper documentation now
- Incorporate your company





THE DON'T'S

Don't:

- Underestimate the importance of documentation
- Focus on the business opportunity
- Leave SR&ED claims until the last minute





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**SR&ED FINANCING
CONSIDERATIONS**

Will Hutchins, Managing Director

FOUNDED 2009

FUNDED \$135M+

550+ LOANS

What is Venture Debt?

- Venture debt = an alternative / complement to equity for companies seeking growth capital
- Traditional lenders focused on lending against tangible vs intangible assets
- Early/growth stage technology companies have limited access to traditional debt financing

Why Venture Debt?

- Accelerate growth and reach milestones earlier
- Maximize total funding / complement to equity
- Alternative to equity financing / minimize dilution
- Extend the runway before next equity round
- Provide liquidity cushion

Financing Solutions

- Tax credit financing
- Recurring revenue financing
- Working capital financing



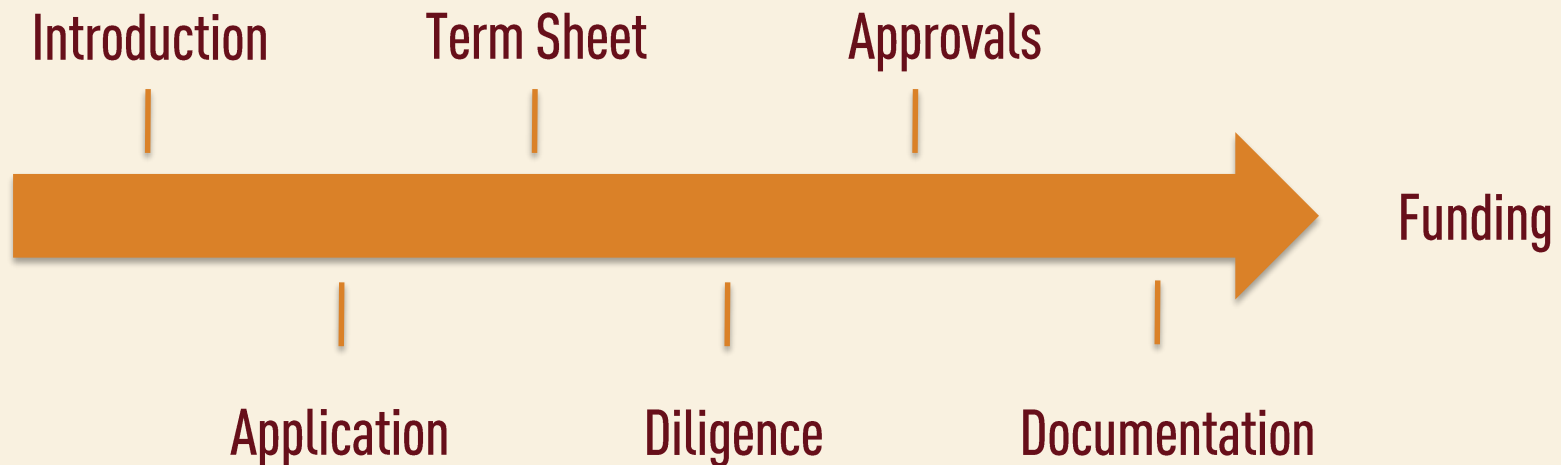
SR&ED Financing

- Flexible source of financing for early stage and more mature companies
- Facility size based on forecast tax refund
- Filed and accrued amounts may be financed
- Compatible with existing senior secured debt facilities

Considerations

- Track record of successful filings
- Recent audit history
- Eligibility and audit risk assessment of current claim
- Fully funded plan (including loan proceeds) for loan duration
- Team / company assessment

Espresso Process



Ability to fund in as little as 10 business days

SR&ED Loan Attributes

- Secured Credit Facility structure
- Loan size \$250,000+
- Monthly interest payments
- Repayment or roll-over on receipt of refund
- Retain operational flexibility for your business
- Subordinated to senior lender (if any)

Maximizing Funding

- SR&ED loans can complement other financing solutions
- Recurring Revenue Financing - eg 3x-6x MRR
- Working Capital Financing – A/R, purchase order, inventory financing

Key Benefits

- Cost of Capital – non-dilutive, less expensive
- Flexibility – draw capital as needed, open repayment
- Valuation – reduced complexity
- Governance – no board requirements



financing the next step
