TECHNOLOGY INCENTIVES INC

SR&ED is a $4 billon government incentive…

- do you qualify?

by Richard Moore, B.A.Sc., M.B.A., former Science Consultant to CRA

SR&ED is a government incentive
to encourage you to develop new technical knowledge

SR&ED typically cuts R&D budgets
of technology based companies in half!

SR&ED ought to become an integral component of your cash flow planning.

SR&ED it will affect your company's balance sheet dramatically!

new knowledge in every technical domain qualifies for SR&ED

Canadian Controlled Private Corporations receive government cheques. Others do not.

Public and non-Canadian companies receive income tax credits that can only be used to pay your company's income taxes. They can be carried forward for 20 years.

If your company is not a CCPC, it must be profitable in order to benefit from SR&ED.

SR&ED is generous!

CCPCs receive Government of Canada cheques equal to the sum of :

- 68.5% of qualifying salaries;
- 41.5% of contractor payments and costs of materials;
- 22.6% of capital equipment used exclusively for R&D

reduced by 41.5% of government grants such as NRC-IRAP.

only technical activities qualify for SR&ED:

- experiments and analysis;
- design, analysis, data collection, and research;
- technical support (not for customers);
- internal technical documentation;
- first-line manager's supervision of tech team; hiring.

non-technical activities do NOT qualify for SR&ED:

- sales, advertising, and customer support;
- financing, preparing marketing and business plans;
- system integration: if you are merely following directions, then your activities do NOT qualify; however, if you need to reverse engineer third-party products to perform uniquely then yes, your work will qualify.

Most innovative technical development ought to qualify for SR&ED

When you uncover new technical knowledge that your competitors don't understand, a portion of salaries and contractor fees you invested in your intellectual property portfolio will qualify for SR&ED!

It’s a grey world!

Software SR&ED claims are the most contentious, and most difficult for CRA to assess.

Expert opinion can benefit you. You’ll need to separate time spent on SR&ED-eligible activities and bug fixes that characterize routine application software development.

At least one-half of our clients are involved in software.

SR&ED templates provide proof for CRA…, who will inevitably come knocking… seeking documentation

CRA's internal policy is to visit every SR&ED claimant every three years, at least.

I recommend using a spreadsheet to log the proportions of time that each employee and contractor spent on each "SR&ED Project". They're a simple effective way to provide the documentation CRA requires.

What's the minimum effort for required to warrant logging time and claiming each SR&ED Project?

Rule of thumb: usually >½ man-year is required to justify writing the 3 sections required to describe each SR&ED Project.

You must describe each SR&ED Project in three SR&ED technical sections:

Technological Advancements (max 350 words, ~ one page)

1. Technological Obstacles (max 350 words, ~ one page)
2. Work Performed (max 700 words, ~ two pages)

…and answer some Y/N questions.

first section: “Technological Advancements”
maximum: 350 words (~one page)

Describe knowledge that you generated which ‘advanced’ your understanding of issues necessary to overcome your Technical Obstacles.

Explain what you know about your topic that your competitors don’t understand. I recommend starting your paragraphs using these phrases:

- *We learned how to…*
- *We discovered that…*
- *We now understand why…*
- *New knowledge that we generated enabled us to…*

second section: “Technological Obstacles”

maximum of 350 words (~one page)

Describe problems that you didn’t initially know how to solve because knowledge generally-available was inadequate to solve them.

Stress uncertainty. Begin your paragraphs using these phrases:

- *We did not know how to…*
- *We were unsure whether we could…*
- *We could not understand why…*
- *Our problem was difficult because…*

third section: “Work Performed”
maximum of 700 words (~two pages)

Describe the activities and tests that each person performed. CRA needs evidence to justify apportionments of each employee’s salary and of each contractor’s fee and materials used.

- Emphasize the systematic manner in which you investigated issues that concerned you;
- Describe your failures and disappointments because they demonstrate the difficulties you faced.

Don’t procrastinate!
Describe your problems in your logs

It takes less effort to explain why your work is difficult while you are working on problems you need to solve. Don’t wait until you are finished to describe your difficulties. That is more difficult, and more time-consuming!

Descriptions in your logs of your problems you’re trying to solve will become content in the one-page “Technological Obstacles” section of SR&ED form T661.

…also describe your solutions in your logs

When you are proud of achieving a milestone, take an hour to write.

Explanations in your logs of your solutions will become content in the one-page description of your “Technical Advancements” required in SR&ED form T661.

Don’t procrastinate!

1.It will take you less effort to explain why your work is difficult if you do so while you work on problems you need to solve… and likely clarify your thought processes. Don’t wait until you are finished to describe your difficulties. It is more difficult and more time-consuming then!

2.Smart technical people who solve problems that initially perplexed them often think “*gee, that wasn’t so difficult after all*”. It’s awkward for them to explain what appeared so difficult initially. Instead, I recommend keeping contemporaneous records- in real-time. You’ll likely receive more cash, because your people will identify more time which qualifies for SR&ED, and be able to justify it.

What is your deadline for submitting SR&ED form T661?

your SR&ED claim must be submitted within 18 months after the end of each fiscal period.

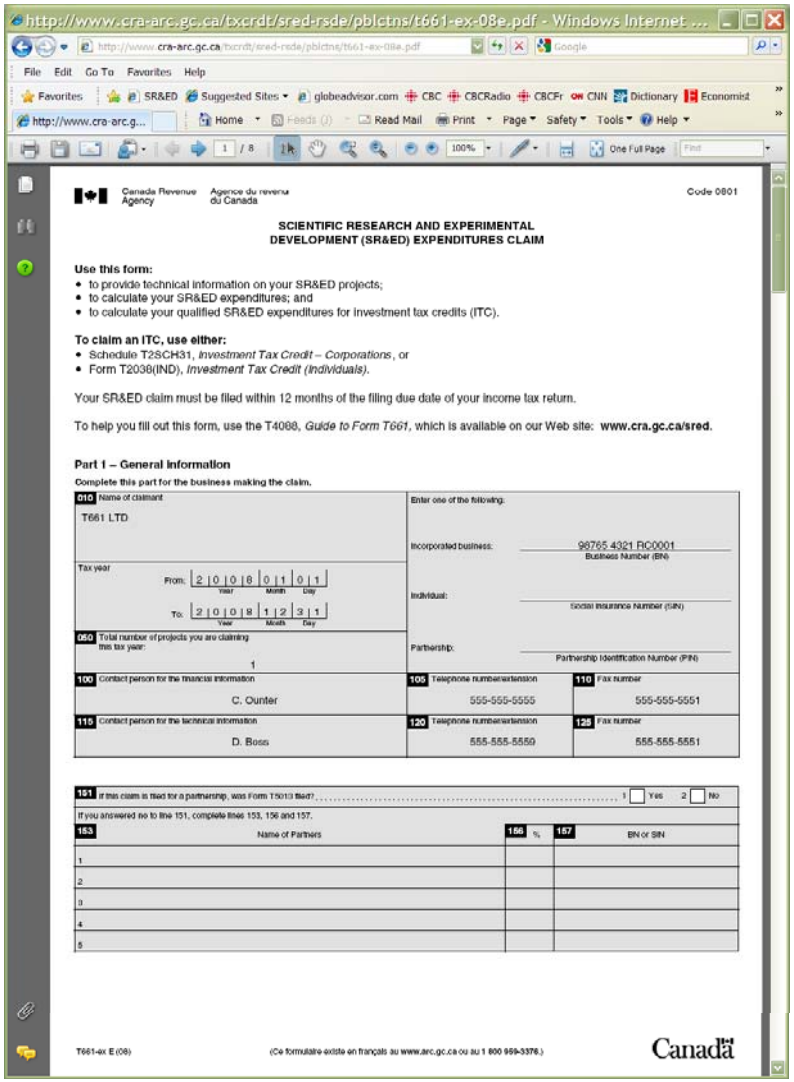
The sooner you start, the sooner your Government of Canada cheque will arrive.

Get your accountant to enter your technical data into SR&ED form T661

Your accountant will use Taxprep, Cantax or Profile software to prepare your corporate T2 income tax return.

She will enter your SR&ED data directly into Taxprep, Cantax or Profile file, then return you sign your T2 and deliver it to CRA or file it electronically.

CRA's new SR&ED form T661: introduction



http://www.cra-arc.gc.ca/txcrdt/sred-rsde/pblctns/t661-ex-08e.pdf - Windows Internet ...

Canada Revenue Agency / Agence du revenu du Canada — Code 0801

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR&ED) EXPENDITURES CLAIM

Use this form:

- to provide technical information on your SR&ED projects;
- to calculate your SR&ED expenditures; and
- to calculate your qualified SR&ED expenditures for investment tax credits (ITC).

To claim an ITC, use either:

- Schedule T2SCH31, *Investment Tax Credit – Corporations*, or
- Form T2038(IND), *Investment Tax Credit (Individuals)*.

Your SR&ED claim must be filed within 12 months of the filing due date of your income tax return.

To help you fill out this form, use the T4088, *Guide to Form T661*, which is available on our Web site: **www.cra.gc.ca/sred**.

Part 1 – General information

Complete this part for the business making the claim.

010 Name of claimant	Enter one of the following:
T661 LTD	Incorporated business: 98765 4321 RC0001 (Business Number (BN))
Tax year From: 2008 Month 01 Day 01	Individual: (Social insurance number (SIN))
To: 2008 Month 12 Day 31	Partnership: (Partnership Identification Number (PIN))
060 Total number of projects you are claiming this tax year: 1	

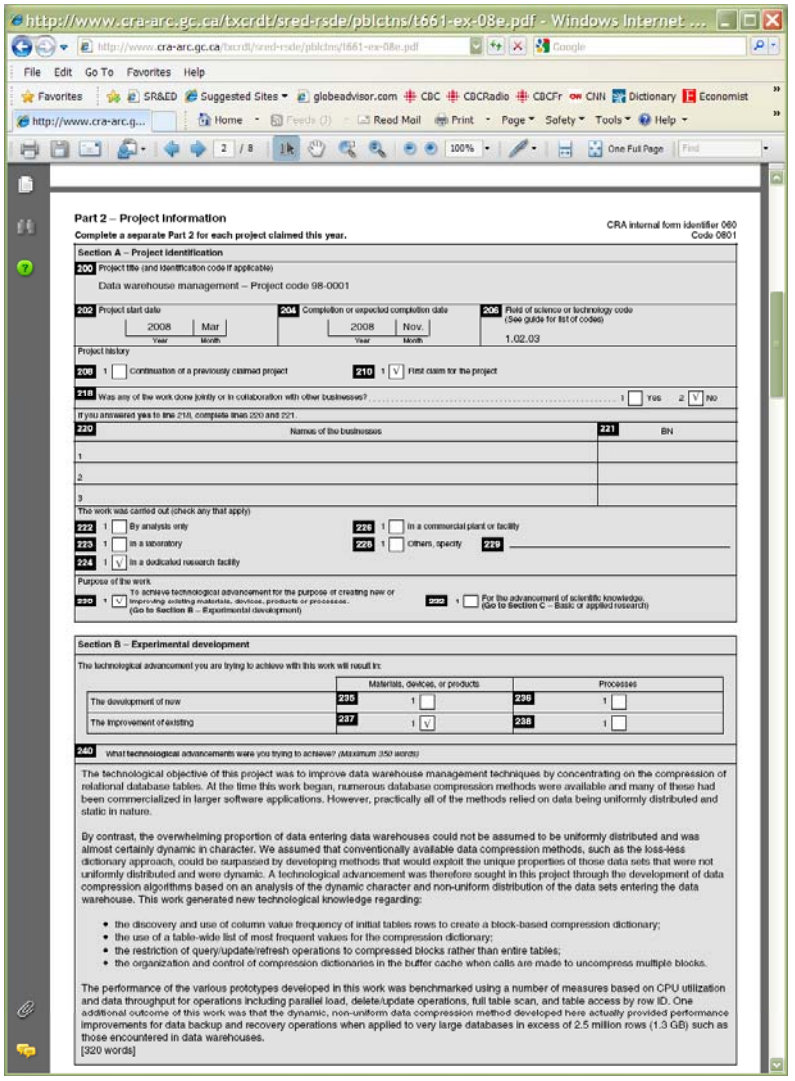
100 Contact person for the financial information	105 Telephone number/extension	110 Fax number
C. Ounter	555-555-5555	555-555-5551
115 Contact person for the technical information	**120 Telephone number/extension**	**125 Fax number**
D. Boss	555-555-5550	555-555-5551

151 If this claim is filed for a partnership, was Form T5013 filed? 1 Yes 2 No

If you answered no to line 151, complete lines 153, 156 and 157.

153 Name of Partners	156 %	157 BN or SIN
1		
2		
3		
4		
5		

T661-ex E (08) (Ce formulaire existe en français au www.arc.gc.ca ou au 1 800 959-5376.) Canada



http://www.cra-arc.gc.ca/txcrdt/sred-rsde/pblctns/t661-ex-08e.pdf - Windows Internet ...

Part 2 – Project information

Complete a separate Part 2 for each project claimed this year.

CRA internal form identifier 060 Code 0801

Section A – Project identification

200 Project title (and identification code if applicable)

Data warehouse management – Project code 98-0001

202 Project start date	204 Completion or expected completion date	206 Field of science or technology code (See guide for list of codes)
2008 Year Mar Month	2008 Year Nov. Month	1.02.03

Project history

208 1 ☐ Continuation of a previously claimed project 210 1 ☑ First claim for the project

218 Was any of the work done jointly or in collaboration with other businesses? 1 ☐ Yes 2 ☑ No

If you answered yes to line 218, complete lines 220 and 221.

220 Names of the businesses	221 BN
1	
2	
3	

The work was carried out (check any that apply)

222 1 ☐ By analysts only 226 1 ☐ In a commercial plant or facility

223 1 ☐ In a laboratory 228 1 ☐ Others, specify 229

224 1 ☑ In a dedicated research facility

Purpose of the work

230 1 ☑ To achieve technological advancement for the purpose of creating new or improving existing materials, devices, products or processes. (Go to Section B – Experimental development)

232 1 ☐ For the advancement of scientific knowledge. (Go to Section C – Basic or applied research)

Section B – Experimental development

The technological advancement you are trying to achieve with this work will result in:

	Materials, devices, or products	Processes
The development of new	235 1 ☐	236 1 ☐
The improvement of existing	237 1 ☑	238 1 ☐

240 What technological advancements were you trying to achieve? (Maximum 350 words)

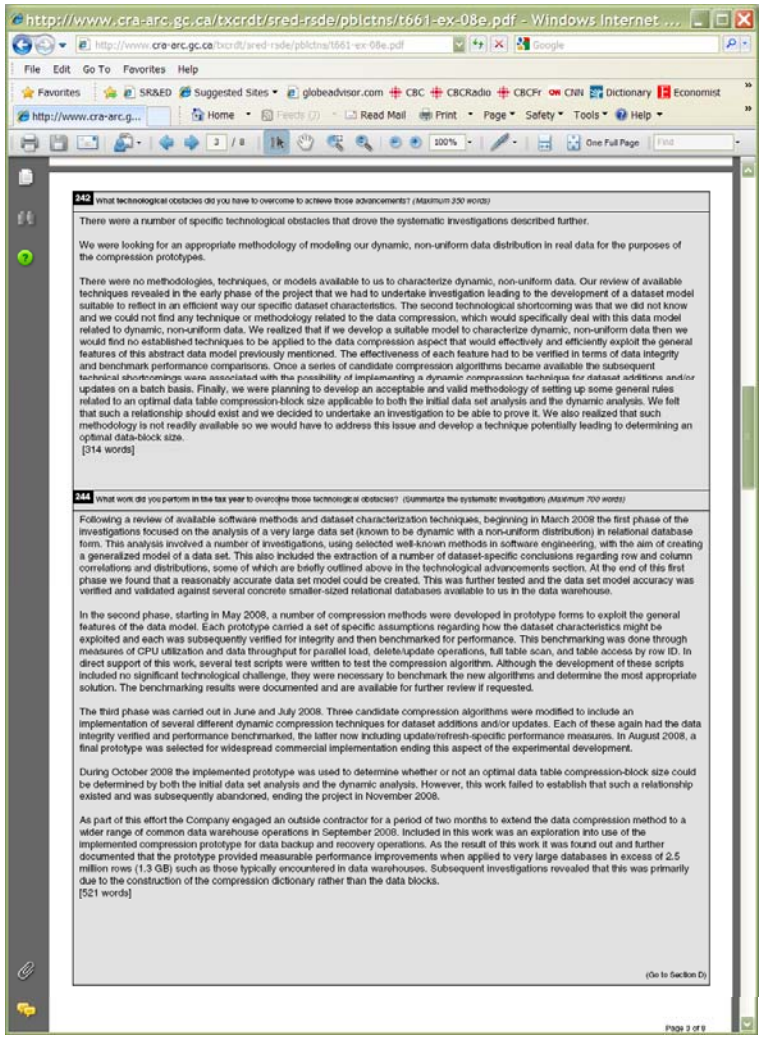
The technological objective of this project was to improve data warehouse management techniques by concentrating on the compression of relational database tables. At the time this work began, numerous database compression methods were available and many of these had been commercialized in larger software applications. However, practically all of the methods relied on data being uniformly distributed and static in nature.

By contrast, the overwhelming proportion of data entering data warehouses could not be assumed to be uniformly distributed and was almost certainly dynamic in character. We assumed that conventionally available data compression methods, such as the loss-less dictionary approach, could be surpassed by developing methods that would exploit the unique properties of those data sets that were not uniformly distributed and were dynamic. A technological advancement was therefore sought in this project through the development of data compression algorithms based on an analysis of the dynamic character and non-uniform distribution of the data sets entering the data warehouse. This work generated new technological knowledge regarding:

- the discovery and use of column value frequency of initial tables rows to create a block-based compression dictionary;
- the use of a table-wide list of most frequent values for the compression dictionary;
- the restriction of query/update/refresh operations to compressed blocks rather than entire tables;
- the organization and control of compression dictionaries in the buffer cache when calls are made to uncompress multiple blocks.

The performance of the various prototypes developed in this work was benchmarked using a number of measures based on CPU utilization and data throughput for operations including parallel load, delete/update operations, full table scan, and table access by row ID. One additional outcome of this work was that the dynamic, non-uniform data compression method developed here actually provided performance improvements for data backup and recovery operations when applied to very large databases in excess of 2.5 million rows (1.3 GB) such as those encountered in data warehouses.
[320 words]

CRA's new SR&ED form T661: project information



242 What technological obstacles did you have to overcome to achieve those advancements? *(Maximum 350 words)*

There were a number of specific technological obstacles that drove the systematic investigations described further.

We were looking for an appropriate methodology of modelling our dynamic, non-uniform data distribution in real data for the purposes of the compression prototypes.

There were no methodologies, techniques, or models available to us to characterize dynamic, non-uniform data. Our review of available techniques revealed in the early phase of the project that we had to undertake investigation leading to the development of a dataset model suitable to reflect in an efficient way our specific dataset characteristics. The second technological shortcoming was that we did not know and we could not find any technique or methodology related to the data compression, which would specifically deal with this data model related to dynamic, non-uniform data. We realized that if we develop a suitable model to characterize dynamic, non-uniform data then we would find no established techniques to be applied to the data compression aspect that would effectively and efficiently exploit the general features of this abstract data model previously mentioned. The effectiveness of each feature had to be verified in terms of data integrity and benchmark performance comparisons. Once a series of candidate compression algorithms became available the subsequent technical shortcomings were associated with the possibility of implementing a dynamic compression technique for dataset additions and/or updates on a batch basis. Finally, we were planning to develop an acceptable and valid methodology of setting up some general rules related to an optimal data table compression-block size applicable to both the initial data set analysis and the dynamic analysis. We felt that such a relationship should exist and we decided to undertake an investigation to be able to prove it. We also realized that such methodology is not readily available so we would have to address this issue and develop a technique potentially leading to determining an optimal data-block size.
[314 words]

244 What work did you perform in the tax year to overcome those technological obstacles? *(Summarize the systematic investigation) (Maximum 700 words)*

Following a review of available software methods and dataset characterization techniques, beginning in March 2008 the first phase of the investigations focused on the analysis of a very large data set (known to be dynamic with a non-uniform distribution) in relational database form. This analysis involved a number of investigations, using selected well-known methods in software engineering, with the aim of creating a generalized model of a data set. This also included the extraction of a number of dataset-specific conclusions regarding row and column correlations and distributions, some of which are briefly outlined above in the technological advancements section. At the end of this first phase we found that a reasonably accurate data set model could be created. This was further tested and the data set model accuracy was verified and validated against several concrete smaller-sized relational databases available to us in the data warehouse.

In the second phase, starting in May 2008, a number of compression methods were developed in prototype forms to exploit the general features of the data model. Each prototype carried a set of specific assumptions regarding how the dataset characteristics might be exploited and each was subsequently verified for integrity and then benchmarked for performance. This benchmarking was done through measures of CPU utilization and data throughput for parallel load, delete/update operations, full table scan, and table access by row ID. In direct support of this work, several test scripts were written to test the compression algorithm. Although the development of these scripts included no significant technological challenge, they were necessary to benchmark the new algorithms and determine the most appropriate solution. The benchmarking results were documented and are available for further review if requested.

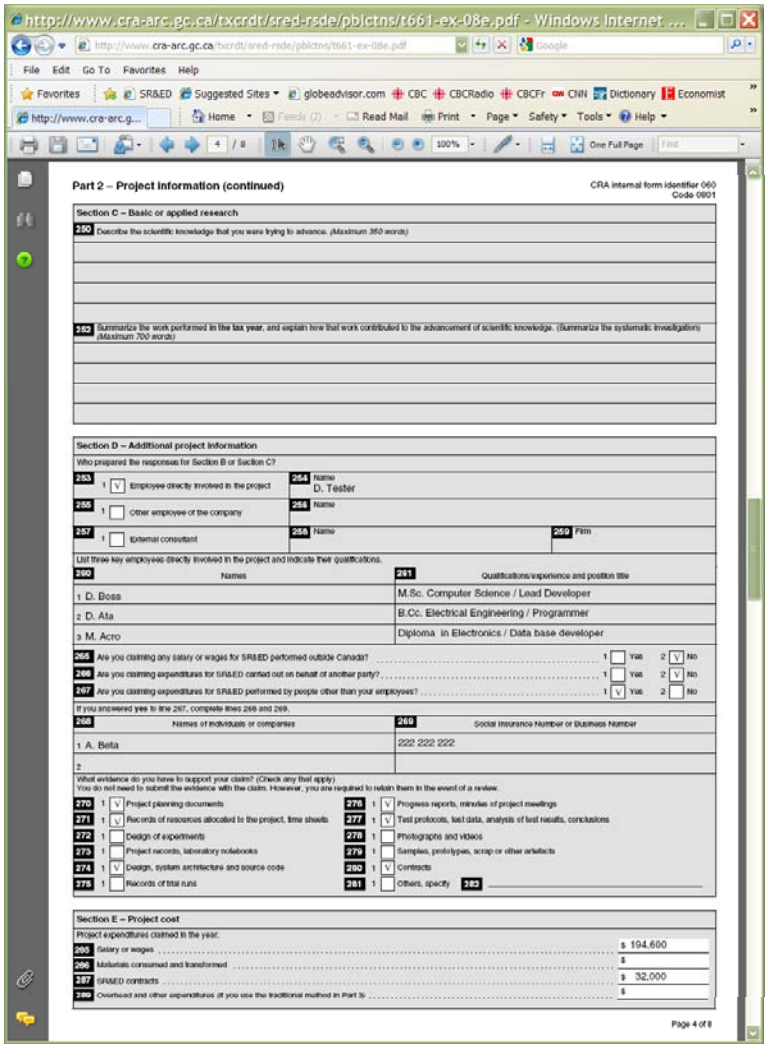
The third phase was carried out in June and July 2008. Three candidate compression algorithms were modified to include an implementation of several different dynamic compression techniques for dataset additions and/or updates. Each of these again had the data integrity verified and performance benchmarked, the latter now including update/refresh-specific performance measures. In August 2008, a final prototype was selected for widespread commercial implementation ending this aspect of the experimental development.

During October 2008 the implemented prototype was used to determine whether or not an optimal data table compression-block size could be determined by both the initial data set analysis and the dynamic analysis. However, this work failed to establish that such a relationship existed and was subsequently abandoned, ending the project in November 2008.

As part of this effort the Company engaged an outside contractor for a period of two months to extend the data compression method to a wider range of common data warehouse operations in September 2008. Included in this work was an exploration into use of the implemented compression prototype for data backup and recovery operations. As the result of this work it was found out and further documented that the prototype provided measurable performance improvements when applied to very large databases in excess of 2.5 million rows (1.3 GB) such as those typically encountered in data warehouses. Subsequent investigations revealed that this was primarily due to the construction of the compression dictionary rather than the data blocks.
[521 words]

(Go to Section D)

Page 3 of 8



Part 2 – Project information (continued)

CRA internal form identifier 060 Code 0801

Section C – Basic or applied research

250 Describe the scientific knowledge that you were trying to advance. *(Maximum 350 words)*

252 Summarize the work performed in the tax year, and explain how that work contributed to the advancement of scientific knowledge. (Summarize the systematic investigation) *(Maximum 700 words)*

Section D – Additional project information

Who prepared the responses for Section B or Section C?

253 1 [V] Employee directly involved in the project — 254 Name: D. Tester

255 1 [ ] Other employee of the company — 256 Name:

257 1 [ ] External consultant — 258 Name: — 259 Firm:

List three key employees directly involved in the project and indicate their qualifications.

260 Names	261 Qualifications/experience and position title
1 D. Boss	M.Sc. Computer Science / Lead Developer
2 D. Ata	B.Cc. Electrical Engineering / Programmer
3 M. Acro	Diploma in Electronics / Data base developer

265 Are you claiming any salary or wages for SR&ED performed outside Canada? 1 [ ] Yes 2 [V] No

266 Are you claiming expenditures for SR&ED carried out on behalf of another party? 1 [ ] Yes 2 [V] No

267 Are you claiming expenditures for SR&ED performed by people other than your employees? 1 [V] Yes 2 [ ] No

If you answered yes to line 267, complete lines 268 and 269.

268 Names of individuals or companies	269 Social Insurance Number or Business Number
1 A. Beta	222 222 222
2	

What evidence do you have to support your claim? (Check any that apply)
You do not need to submit the evidence with the claim. However, you are required to retain them in the event of a review.

270 1 [V] Project planning documents — 276 1 [V] Progress reports, minutes of project meetings

271 1 [V] Records of resources allocated to the project, time sheets — 277 1 [V] Test protocols, test data, analysis of test results, conclusions

272 1 [ ] Design of experiments — 278 1 [ ] Photographs and videos

273 1 [ ] Project records, laboratory notebooks — 279 1 [ ] Samples, prototypes, scrap or other artefacts

274 1 [V] Design, system architecture and source code — 280 1 [V] Contracts

275 1 [ ] Records of trial runs — 281 1 [ ] Others, specify 282

Section E – Project cost

Project expenditures claimed in the year:

285 Salary or wages: $ 194,600

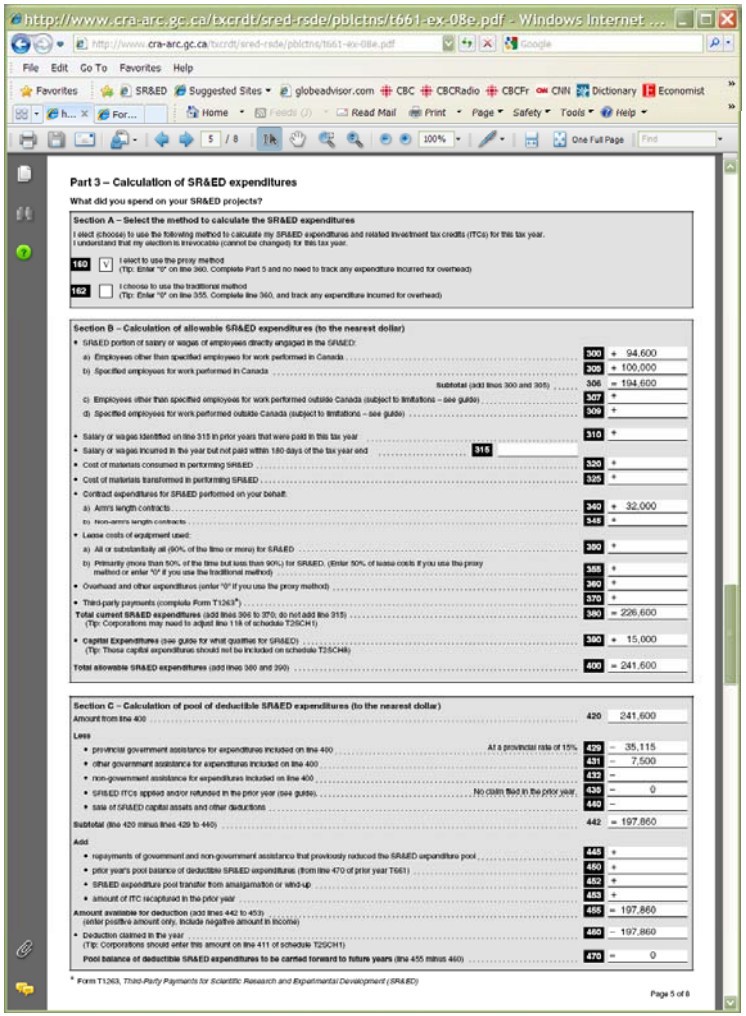
286 Materials consumed and transformed: $

287 SR&ED contracts: $ 32,000

288 Overhead and other expenditures (if you use the traditional method in Part 3): $

Page 4 of 8

CRA's new SR&ED form T661: enter salaries, contractor fees, materials, lease payments, capex



Part 3 – Calculation of SR&ED expenditures

What did you spend on your SR&ED projects?

Section A – Select the method to calculate the SR&ED expenditures

I elect (choose) to use the following method to calculate my SR&ED expenditures and related investment tax credits (ITCs) for this tax year.
I understand that my election is irrevocable (cannot be changed) for this tax year.

160 [V] I elect to use the proxy method (Tip: Enter "0" on line 360. Complete Part 5 and no need to track any expenditure incurred for overhead)

162 [ ] I choose to use the traditional method (Tip: Enter "0" on line 355. Complete line 360, and track any expenditure incurred for overhead)

Section B – Calculation of allowable SR&ED expenditures (to the nearest dollar)

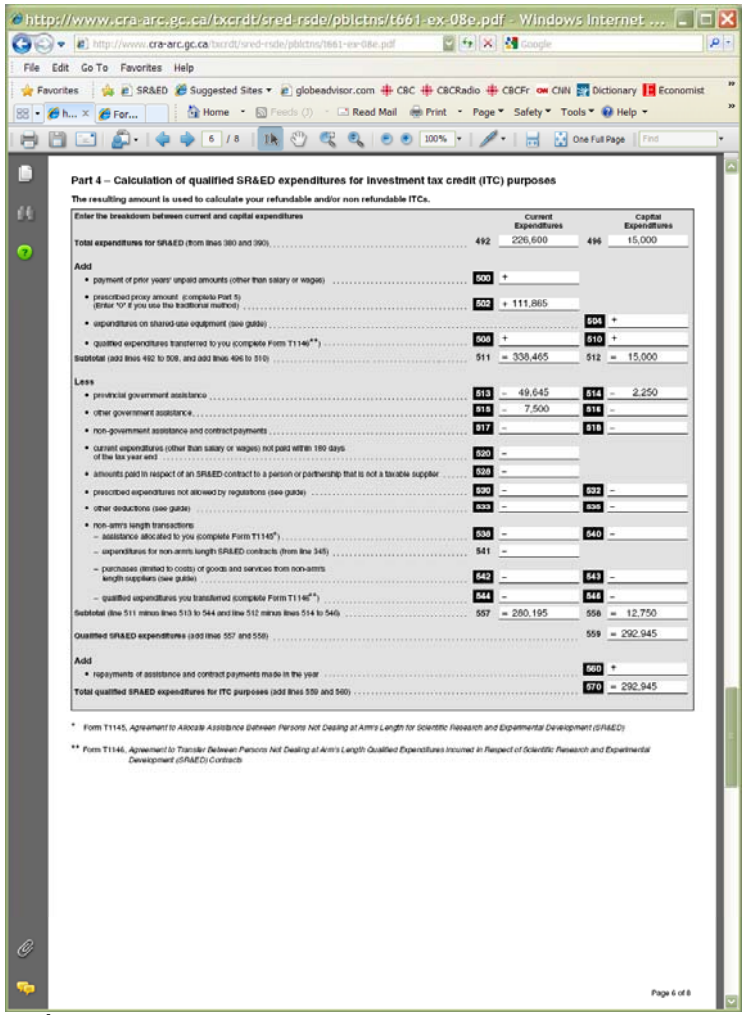
• SR&ED portion of salary or wages of employees directly engaged in the SR&ED:		
a) Employees other than specified employees for work performed in Canada	300	+ 94,600
b) Specified employees for work performed in Canada	305	+ 100,000
Subtotal (add lines 300 and 305)	306	= 194,600
c) Employees other than specified employees for work performed outside Canada (subject to limitations – see guide)	307	+
d) Specified employees for work performed outside Canada (subject to limitations – see guide)	309	+
• Salary or wages identified on line 315 in prior years that were paid in this tax year	310	+
• Salary or wages incurred in the year but not paid within 180 days of the tax year end 316		
• Cost of materials consumed in performing SR&ED	320	+
• Cost of materials transformed in performing SR&ED	325	+
• Contract expenditures for SR&ED performed on your behalf:		
a) Arm's length contracts	340	+ 32,000
b) Non-arm's length contracts	345	+
• Lease costs of equipment used:		
a) All or substantially all (90% of the time or more) for SR&ED	350	+
b) Primarily (more than 50% of the time but less than 90%) for SR&ED. (Enter 50% of lease costs if you use the proxy method or enter "0" if you use the traditional method)	355	+
• Overhead and other expenditures (enter "0" if you use the proxy method)	360	+
• Third-party payments (complete Form T1263*)	370	+
Total current SR&ED expenditures (add lines 306 to 370; do not add line 315) (Tip: Corporations may need to adjust line 118 of schedule T2SCH1)	380	= 226,600
• Capital Expenditures (see guide for what qualifies for SR&ED) (Tip: Those capital expenditures should not be included on schedule T2SCH8)	390	+ 15,000
Total allowable SR&ED expenditures (add lines 380 and 390)	400	= 241,600

Section C – Calculation of pool of deductible SR&ED expenditures (to the nearest dollar)

Amount from line 400	420	241,600
Less		
• provincial government assistance for expenditures included on line 400 (At a provincial rate of 15%)	429	– 35,115
• other government assistance for expenditures included on line 400	431	– 7,500
• non-government assistance for expenditures included on line 400	433	–
• SR&ED ITCs applied and/or refunded in the prior year (see guide) (No claim filed in the prior year)	436	– 0
• sale of SR&ED capital assets and other deductions	440	–
Subtotal (line 420 minus lines 429 to 440)	442	= 197,860
Add		
• repayments of government and non-government assistance that previously reduced the SR&ED expenditure pool	445	+
• prior year's pool balance of deductible SR&ED expenditures (from line 470 of prior year T661)	450	+
• SR&ED expenditure pool transfer from amalgamation or wind-up	452	+
• amount of ITC recaptured in the prior year	453	+
Amount available for deduction (add lines 442 to 453) (enter positive amount only. Include negative amount in income)	455	= 197,860
• Deduction claimed in the year (Tip: Corporations should enter this amount on line 411 of schedule T2SCH1)	460	– 197,860
Pool balance of deductible SR&ED expenditures to be carried forward to future years (line 455 minus 460)	470	= 0

* Form T1263, *Third-Party Payments for Scientific Research and Experimental Development (SR&ED)*

Page 5 of 8



Part 4 – Calculation of qualified SR&ED expenditures for investment tax credit (ITC) purposes

The resulting amount is used to calculate your refundable and/or non refundable ITCs.

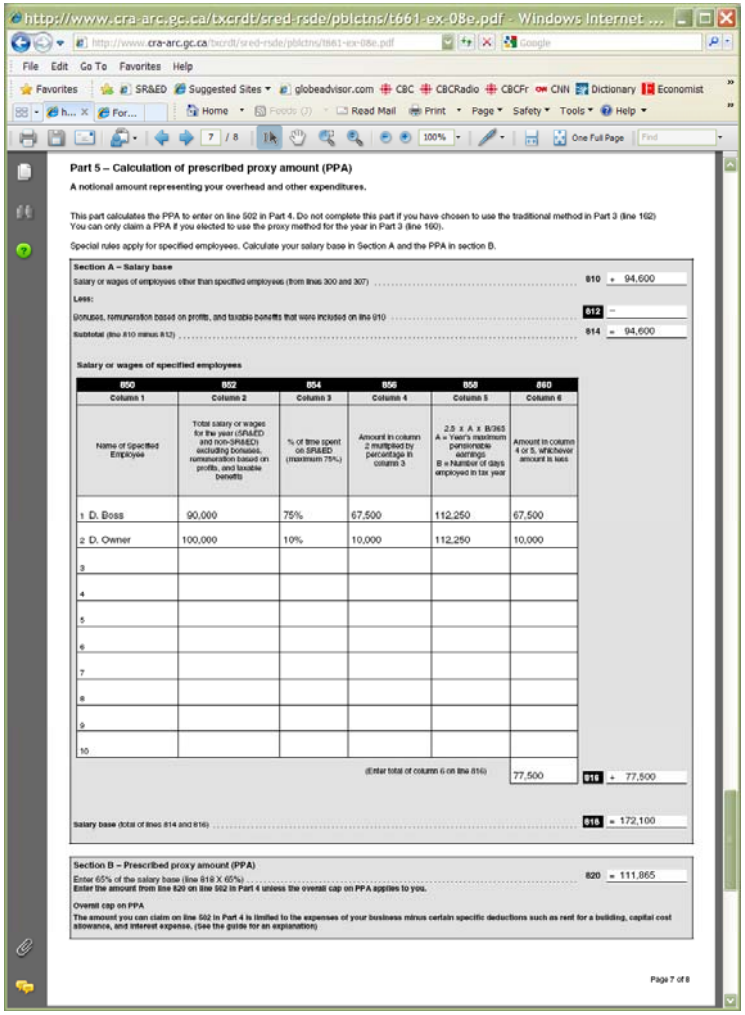
Enter the breakdown between current and capital expenditures		Current Expenditures		Capital Expenditures
Total expenditures for SR&ED (from lines 380 and 390)	492	226,600	496	15,000
Add				
• payment of prior years' unpaid amounts (other than salary or wages)	500	+		
• prescribed proxy amount (complete Part 5) (Enter "0" if you use the traditional method)	502	+ 111,865		
• expenditures on shared-use equipment (see guide)			504	+
• qualified expenditures transferred to you (complete Form T1146**)	506	+	510	+
Subtotal (add lines 492 to 506, and add lines 496 to 510)	511	= 338,465	512	= 15,000
Less				
• provincial government assistance	513	– 49,645	514	– 2,250
• other government assistance	515	– 7,500	516	–
• non-government assistance and contract payments	517	–	518	–
• current expenditures (other than salary or wages) not paid within 180 days of the tax year end	520	–		
• amounts paid in respect of an SR&ED contract to a person or partnership that is not a taxable supplier	526	–		
• prescribed expenditures not allowed by regulations (see guide)	530	–	532	–
• other deductions (see guide)	533	–	536	–
• non-arm's length transactions				
– assistance allocated to you (complete Form T1145*)	536	–	540	–
– expenditures for non-arm's length SR&ED contracts (from line 345)	541	–		
– purchases (limited to costs) of goods and services from non-arm's length suppliers (see guide)	542	–	543	–
– qualified expenditures you transferred (complete Form T1146**)	544	–	546	–
Subtotal (line 511 minus lines 513 to 544 and line 512 minus lines 514 to 546)	557	= 280,195	558	= 12,750
Qualified SR&ED expenditures (add lines 557 and 558)			559	= 292,945
Add				
• repayments of assistance and contract payments made in the year			560	+
Total qualified SR&ED expenditures for ITC purposes (add lines 559 and 560)			570	= 292,945

* Form T1145, *Agreement to Allocate Assistance Between Persons Not Dealing at Arm's Length for Scientific Research and Experimental Development (SR&ED)*

** Form T1146, *Agreement to Transfer Between Persons Not Dealing at Arm's Length Qualified Expenditures Incurred in Respect of Scientific Research and Experimental Development (SR&ED) Contracts*

Page 6 of 8

CRA's new SR&ED form T661: proxy calculation for specified employees; # of employees



Part 5 – Calculation of prescribed proxy amount (PPA)

A notional amount representing your overhead and other expenditures.

This part calculates the PPA to enter on line 502 in Part 4. Do not complete this part if you have chosen to use the traditional method in Part 3 (line 162) You can only claim a PPA if you elected to use the proxy method for the year in Part 3 (line 160).

Special rules apply for specified employees. Calculate your salary base in Section A and the PPA in section B.

Section A – Salary base

Salary or wages of employees other than specified employees (from lines 300 and 307) 810 + 94,600

Less:

Bonuses, remuneration based on profits, and taxable benefits that were included on line 810 812 –

Subtotal (line 810 minus 812) 814 = 94,600

Salary or wages of specified employees

850 Column 1	852 Column 2	854 Column 3	856 Column 4	858 Column 5	860 Column 6
Name of Specified Employee	Total salary or wages for the year (SR&ED and non-SR&ED) excluding bonuses, remuneration based on profits, and taxable benefits	% of time spent on SR&ED (maximum 75%)	Amount in column 2 multiplied by percentage in column 3	2.5 x A x B/365 A = Year's maximum pensionable earnings B = Number of days employed in tax year	Amount in column 4 or 5, whichever amount is less
1 D. Boss	90,000	75%	67,500	112,250	67,500
2 D. Owner	100,000	10%	10,000	112,250	10,000
3					
4					
5					
6					
7					
8					
9					
10					
			(Enter total of column 6 on line 816)		77,500

816 + 77,500

Salary base (total of lines 814 and 816) 818 = 172,100

Section B – Prescribed proxy amount (PPA)

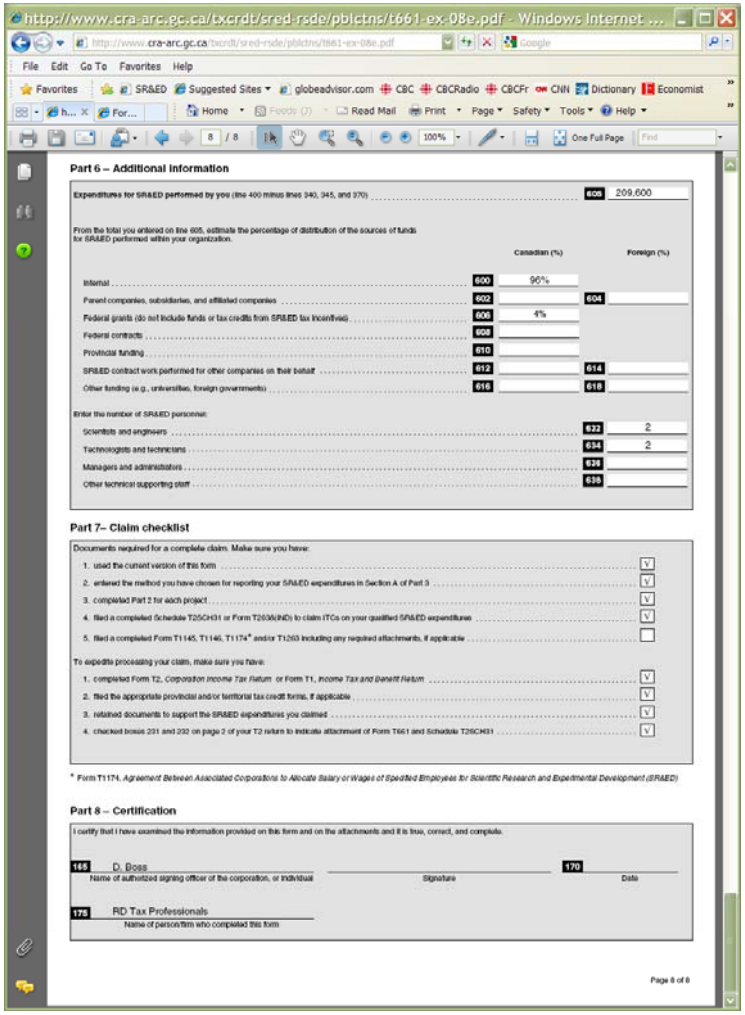
Enter 65% of the salary base (line 818 X 65%) 820 = 111,865

Enter the amount from line 820 on line 502 in Part 4 unless the overall cap on PPA applies to you.

Overall cap on PPA

The amount you can claim on line 502 in Part 4 is limited to the expenses of your business minus certain specific deductions such as rent for a building, capital cost allowance, and interest expense. (See the guide for an explanation)

Page 7 of 8



Part 6 – Additional information

Expenditures for SR&ED performed by you (line 400 minus lines 340, 345, and 370) 605 209,600

From the total you entered on line 605, estimate the percentage of distribution of the sources of funds for SR&ED performed within your organization.

		Canadian (%)		Foreign (%)
Internal	600	96%		
Parent companies, subsidiaries, and affiliated companies	602		604	
Federal grants (do not include funds or tax credits from SR&ED tax incentives)	606	4%		
Federal contracts	608			
Provincial funding	610			
SR&ED contract work performed for other companies on their behalf	612		614	
Other funding (e.g., universities, foreign governments)	616		618	

Enter the number of SR&ED personnel:

Scientists and engineers	632	2
Technologists and technicians	634	2
Managers and administrators	636	
Other technical supporting staff	638	

Part 7– Claim checklist

Documents required for a complete claim. Make sure you have:

1. used the current version of this form [V]
2. entered the method you have chosen for reporting your SR&ED expenditures in Section A of Part 3 [V]
3. completed Part 2 for each project [V]
4. filed a completed Schedule T2SCH31 or Form T2038(IND) to claim ITCs on your qualified SR&ED expenditures [V]
5. filed a completed Form T1145, T1146, T1174* and/or T1263 including any required attachments, if applicable [ ]

To expedite processing your claim, make sure you have:

1. completed Form T2, *Corporation Income Tax Return* or Form T1, *Income Tax and Benefit Return* [V]
2. filed the appropriate provincial and/or territorial tax credit forms, if applicable [V]
3. retained documents to support the SR&ED expenditures you claimed [V]
4. checked boxes 231 and 232 on page 2 of your T2 return to indicate attachment of Form T661 and Schedule T2SCH31 [V]

* Form T1174, *Agreement Between Associated Corporations to Allocate Salary or Wages of Specified Employees for Scientific Research and Experimental Development (SR&ED)*

Part 8 – Certification

I certify that I have examined the information provided on this form and on the attachments and it is true, correct, and complete.

165 D. Boss — Name of authorized signing officer of the corporation, or individual — Signature — 170 Date

175 RD Tax Professionals — Name of person/firm who completed this form

Page 8 of 8

When will your SR&ED cheques arrive?

Plan on receiving SR&ED cheques every year, ~one-half year after the end of every fiscal period

SR&ED cheques usually arrive within 3-4 months after you file your T2 and SR&ED form T661. Sometimes within only one month!

If you have already submitted your T2, it will need to be amended. Your first SR&ED cheque will be delayed because CRA intentionally discourages amended T2s with SR&ED forms; CRA must process your T2 twice); consequently your first SR&ED cheque is likely to arrive in 6-8 months.

Do you still have questions?

How can I help you to understand whether your activities qualify for SR&ED?

What is special about your situation?

What would you like to ask CRA, but are too afraid to ask?

Richard Moore, B.A.Sc., M.B.A.

www.techincentives.ca

richard@techincentives.ca 604-331-4688

Unequaled reliability and delivery of SR&ED cheques:

>275 SR&ED cheques received by
>110 technology companies during the past 9 years