

Developments*

Information and updates on scientific research and experimental development

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Revised SR&ED Claim Form (Form T661): What to Expect

Form T661 is a critical part of any scientific research and experimental development (SR&ED) claim. This edition of *Developments* highlights changes that can be expected in the revised form, likely to be released soon. The Canada Revenue Agency (CRA) is also expected to introduce e-filing of project descriptions. While the fundamentals will remain unaffected, these initiatives will have important implications for taxpayers that make SR&ED claims.

Background

In a news release to the media in April 2007, the Minister of National Revenue (then Carol Skelton) made public the CRA's Action Task Force on Small Business Issues Report. It emphasized the need to reduce the compliance burden on small business, identifying more than fifty CRA initiatives aimed at achieving that objective and at improving communication.

One initiative was the introduction of a simplified claim form (Form T661) for the SR&ED program. In June 2008, the CRA issued an "SR&ED Small Business Action Plan Update," which included:

- releasing a simplified Form T661 in the fall of 2008, including a web version with links to explanations in the simplified T4088 Guide to completing Form T661;
- making available an enhanced "Complete Claim Checklist" to ensure that claims are filed correctly;
- introducing a clear format for submitting SR&ED project details to determine project eligibility; and
- creating an online eligibility self-assessment tool for businesses to use to determine if their SR&ED projects qualify.

Revised Form T661

Once released, revised Form T661 likely will apply to taxation years ending after 2008. The major changes to the form are expected to be in "Part 2 – Scientific or Technological Project Information." The questions that must be answered to convince the CRA that the claimant carried out SR&ED will be revised.

The revised Form T661 Project Description write-up will be limited to 1,400 words:

- 350 to explain the technological obstacles encountered (technological uncertainty);
- 350 to describe the scientific knowledge the claimant is trying to advance; and
- 700 to describe the work performed to overcome the obstacles (i.e., to explain the process on how SR&ED is conducted).

Revised Form T661 is also expected to contain a checklist that must be completed to show the documentation available to support the claim.

No major changes to the financial information sections of revised Form T661 are expected.

E-filing of Project Descriptions

If, as expected, the CRA introduces e-filing of project descriptions, taxpayers and the CRA will both have certainty that the forms and the prescribed information have been filed before the 18-month filing deadline. However, with e-filing, claimants will be required to file project descriptions of all their projects instead of the top twenty currently required by CRA policy.

What Has Not Changed

No changes have been made to tax policy or legislation, or have resulted from jurisprudence. Therefore, apart from revised Form T661 and the e-filing of project descriptions, SR&ED claimants that have experience making claims should not have to make significant new investments or major changes to processes. As in the past, they will have to show that the eligibility criteria have been met, but may now be required to provide the information in a more direct and concise format.

Implications for SR&ED Claimants

The anticipated changes have important implications:

- The revised form creates some challenges when preparing project descriptions: the 700-word limit for describing the work performed may not be sufficient to explain how the technological uncertainties were resolved via a systematic investigation that resulted in a technological advancement, especially in the case of large projects. (This short edition of *Developments* is almost 800 words.)
- SR&ED claimants will be required to provide well structured project descriptions that explain in a more direct and concise format the SR&ED work carried out to resolve the technological uncertainties in the year.
- Small businesses that have few researchers or shop floor SR&ED projects may not always have the type of evidence the CRA is looking for in the revised form to support their claims, making it critical to properly document their claims during the SR&ED process.
- For e-filers:
 - descriptions of all projects will have to be filed (not just the top twenty); and
 - claimants currently involved in process review will have to contact the CRA to clarify their filing requirements.
- SR&ED claimants facing fiscal year ends in early 2009 will have to adjust quickly to the new filing format and the additional information requested when completing the revised form.

Contact your local PricewaterhouseCoopers SR&ED adviser (listed on the next page) to discuss how revised Form T661 will affect your organization and how we can help you prepare for the expected changes.

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