

Pinco's semi-annual national technical conference was held in Montreal on January 9th to 10th, 2007. A special session was conducted with CRA to share information on the health of the SR&ED program and current on-goings.

**SR&ED WORKSHOPS**

If you are interested in having Pinchevsky conduct an SR&ED workshop for your firm, contact our local representative.

➤ **PINCHEVSKY AT A GLANCE**

**Your Technical Partner:**

- 1000's of claims
- 25 full time technical staff
- Clients in 7 provinces
- Offices in 3 cities
- 1 SR&ED resource

Pinchevsky is a management consulting firm specializing in the SR&ED Tax Credit Program. This federal and provincial initiative is designed to assist industrial hi tech companies to obtain R&D funding. We currently service over 250 clients annually including small sized companies to large multinationals throughout Canada.

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**PINCHEVSKY**  
Simplifying the SR&ED  
Claim Process



**PINCHEVSKY**

MONTRÉAL | TORONTO | VANCOUVER

*Directly Engaged in SR&ED*

This newsletter is published to provide interesting articles, scenarios and general information related to the Scientific Research & Experimental Development (SR&ED) program.

**Salaries vs. Dividends for Owners?**

There are certain tax advantages for company owners to take dividends or management fees over a T4 salary. However, once they are involved in SR&ED activities, there should be a review conducted as to whether a T4 wages should be taken instead of or in conjunction with other wage vehicles. Up to 82% of T4 salaries associated with SR&ED activities can be recovered in tax credits (depending upon the province). Consult your CA or SR&ED expert to determine the optimum method of withdrawing \$\$\$ out of a company.

**Not All Software is Created Equal**

You may be familiar with the terms hardware and firmware. Firmware is the machine code used to control hardware components. Technologists have introduced the concept of middleware, generally considered as software that integrates diverse software components and applications. To a casual observer, all of these software technologies may have the look and feel of SR&ED eligible activities. However, any project requiring the development of software does not in itself signify eligibility. The project must still pass the acid test of whether the development activity is routine or experimental. Creating source code in and of itself does not signify SR&ED.

**So what projects qualify for SR&ED?**

It is difficult for programmers not to focus on the "feature & function" of a software application when describing a project. They are not to blame, this is the commercial aspect of the project and how things are explained to a customer or investor. However, the eligibility determination of an SR&ED project resides within the underlying technology barriers.

For example, a complex and dynamic looking GUI interface may have a very simple architecture beneath it, where as a simplistic looking GUI interface may have a very complex architecture powering the interface. A discussion describing the interface functionality would not describe the SR&ED elements of the project and thus the wrong project may be identified as SR&ED. In software co's, it is important to determine what is considered routine versus SR&ED within the context of the company. Pinchevsky's claim process helps its clients navigate this minefield and focus their efforts on identifying and documenting the eligible projects and activities, thus producing SR&ED claims that reduce the demand for audits and clarification during audits by CRA.

**Crystal Fountains**

*(What Our Clients are Saying)*

Crystal Fountains is one of the world's leading designers, manufacturers and consultants of dramatic water features. Since 1967, the company has been animating public and private spaces with innovative designs across six continents and more than 30 countries. Headquartered in Toronto, Crystal Fountains collaborates with developers, architects, designers and contractors and has completed over 1,000 water feature projects



attracting a multitude of awards and honors.

There has been a rapid increase in technology

for water displays. Interactive displays are computer controlled and often combine custom lighting effects (such as LED technology) and choreographed to music. As a leader on the global stage, R&D is critical to Crystal Fountains in order to introduce new products, improve performance and reduce costs of components. Before retaining Pinchevsky, previous SR&ED submissions were internally prepared with a limited understanding of the program and guidelines. With the help of Pinchevsky, Crystal Fountains has doubled its credits from the previous year while bringing a more accurate and current interpretation of the program. After a site visit, Pinchevsky understood how to move our claim from a purely technical approach to one that encompasses the full spectrum of all our technological advancements.

**George Ayer**, VP of Operations  
*Crystal Fountains*     [www.crystalfountains.com](http://www.crystalfountains.com)

**Pinchevsky Fast Facts**

- An investment of \$100k in SR&ED would recover \$149k after the 2nd claim year. (QC figures)
- Associated companies must share their 35% expenditure pool.
- A change in ownership or shareholder structure can reduce the ITC %. The ITC could also change from a cash refund to a non-refundable tax credit.
- In 2006, approx. \$2.8B was handed out by the CRA to over 18,000 companies.
- The CRA has abolished the SR&ED committees
- The British Columbia SR&ED tax credit has been extended from 2009 to 2014