



**Federal Budget 2008 –Scientific Research and Experimental Development Program summary**

Four improvements to the SR&ED program for the SMEs

**1. Expenditure Limit**

Budget 2008 proposes to increase the maximum qualified expenditures on which the enhanced 35 per cent rate can be earned to \$3 million from \$2 million. As a result of the increase in the expenditure limit to \$3 million, the maximum amount of fully refundable SR&ED ITCs available for qualifying CCPCs will increase from \$700,000 to \$1.05 million.

**2. Taxable Income Phase-Out Limit**

Budget 2008 proposes to increase the upper limit of the phase-out range for prior-year taxable income to \$700,000 from \$600,000.

**3. Taxable Capital Phase-Out Limit**

Budget 2008 also proposes to increase the upper limit of the phase-out range for prior-year taxable capital to \$50 million from \$15 million.

The proposed increases to the expenditure limit, and the taxable income and taxable capital phase-out limits, will be applicable for taxation years that end on or after February 26, 2008, prorated based on the number of days in that taxation year that are after February 25, 2008.

**Current and Proposed Expenditure Limit and Taxable Income and Capital Phase-Out Ranges**

	<b>Current System</b>	<b>Proposed System</b>
Expenditure Limit	\$2 million	\$3 million
Taxable Income Phase-Out Range	\$400,000 – \$600,000	\$400,000 – \$700,000
Taxable Capital Phase-Out Range	\$10 million – \$15 million	\$10 million – \$50 million



**Illustrative Examples of Maximum ITCs Earned at the Enhanced 35% rate Under the Current and Proposed Systems**

<b>Prior-Year Taxable Income</b>	<b>Prior-Year Taxable Capital</b>	<b>Current Amount of Fully Refundable ITC</b>	<b>Proposed Amount of Fully Refundable ITC</b>
\$400,000	\$10 million	\$700,000	\$1,050,000
\$400,000	\$30 million	0	\$525,000
\$500,000	\$10 million	\$350,000	\$700,000
\$600,000	\$10 million	0	\$350,000

**Proposed Structure: Maximum Fully Refundable ITCs Earned With \$3 million Expenditure Limit**

		<b>Taxable Income (\$ thousands)</b>			
		<b>400</b>	<b>500</b>	<b>600</b>	<b>700</b>
	<b>10</b>	\$1,050,000	700,000	350,000	0
	<b>20</b>	787,500	525,000	262,500	0
<b>Taxable Capital</b>	<b>30</b>	525,000	350,000	175,000	0
(\$ millions)	<b>40</b>	262,500	175,000	87,500	0
	<b>50</b>	0	0	0	0

**4. SR&ED Carried On Outside Canada**

Specifically, the SR&ED ITC will be available to a taxpayer for permissible salary or wages incurred by the taxpayer in respect of Canadian-resident employees carrying on SR&ED activities outside Canada. The activities outside Canada must be directly undertaken by the taxpayer and must be done solely in support of SR&ED carried on by the taxpayer in Canada. Permissible salary or wages incurred by a taxpayer in a taxation year will be limited to 10 per cent of the total salary and wages directly attributable to SR&ED carried on in Canada by the taxpayer during the year.

In addition, permissible salary or wages will not include remuneration based on profits or bonus, or salary or wages subject to an income or profits tax imposed by a foreign country.

The proposal will apply to salary or wages incurred by a taxpayer in respect of SR&ED carried on outside Canada on or after February 26, 2008. For the first taxation year ending on or after February 26, 2008, the 10 per cent limit will be pro-rated based on the number of days that are in that taxation year that are after February 25, 2008.