



Associates

**IRAP vs. SR&ED
Tax Credits**

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Credit and Government Grant Consultancy**

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IRAP vs. SR&ED

Tax Credits

SR&ED and IRAP are both federal government programs that offer financial incentives to businesses undertaking research and development (R&D) activities in Canada. Businesses that are eligible for one program are often eligible for the other. To take advantage of both opportunities it's important to understand the key differences between the two.

Intro to



RDP Associates works with businesses across a wide array of sectors and supports the access to various forms of Government funding. We assist both start-ups and established businesses with gaining access to financial assistance for their innovation and business expansion projects. Government funding programs that RDP specializes in are tax credits and business grants.

RDP is distinctly different from its competitors as it has its own in-house technical analysts, who have specialization in different business verticals.



What is SR&ED?



The **Scientific Research & Experimental Development (SR&ED)** Tax Credit is a federal tax incentive administered by the Canada Revenue Agency (CRA) since 1986. Its purpose is to encourage Canadian businesses of all sizes and in all sectors to conduct research and development in Canada.

Funding is provided as a tax credit to reduce the income tax payable. In some instances, the credit may be fully or partially refundable, resulting in a cash reimbursement.

What is IRAP?

The Industrial Research Assistance Program (IRAP) is a funding mechanism administered by Canada's National Research Council (NRC) since 1962. It offers non-repayable contributions to accelerate the growth of small and Medium-sized businesses, with the goal of stimulating wealth creation for Canada through innovation.

Funding is provided as cash reimbursements against claimed project expenses.

■ Funding Stats

	SR&ED	IRAP
Cost coverage	15-35% of eligible expenses with additional provincial/territorial credits may be available to stack up to 42% (On t.) total credit.	50%-80% of eligible expenses
Maximum funding	No limit	\$10 million per project
Number of projects	No limit	1 project per year
Program budget	No limit, gives out approximately \$3 billion annually on average	\$157 million annually

■ Eligibility

	SR&ED	IRAP
Eligible claimants	Business of any size operating in Canada	For-profit business with fewer than 500 full-time equivalent staff in Canada
Eligible costs	Internal labour, Canadian sub contractors, materials, overheads	Internal labour, Canadian sub contractors
Odds of success	SR&ED is an entitlement program – if your company carried out eligible R&D work, and filed your claim correctly with proper supporting documentation, you are legally entitled to receive the funding.	Even if you meet all of the eligibility criteria, IRAP funding is not guaranteed. Businesses must compete for the limited pool of funding by submitting a strong application for an innovative project which promises many benefits to Canada.

■ Timeline

	SR&ED	IRAP
Availability	Year-round	First-come first-served until regional budget is depleted
Best time to apply	With your corporate tax return	Near start of government fiscal year (April 1)
Deadline to apply	18 months after the end of your fiscal year in which the R&D expenditure occurred	Before your project begins
Processing time	2-6 months	1-3 months
Timing of payout	In full upon claim approval	Monthly installments over project duration

■ Stacking

It is possible to claim both SR&ED and IRAP to increase your overall cost recovery. Any IRAP funding received must be deducted from your total eligible expenditures before calculating your tax credit. However, not all project expenses are eligible for both programs. Certain activities are entitled to different coverage rates. Carefully allocating your costs between programs can minimize overlap to reduce the impact on your SR&ED claim.

Claim IRAP against:	Claim SR&ED against:
<ul style="list-style-type: none">• Due diligence activities (<i>i.e. market research, patent searches, commercial development</i>)• Contractor costs	<ul style="list-style-type: none">• Overheads• Materials

Keeping rigorous project documentation is critical to show separation of these costs so that your claims can be defended.

■ Stacking

Below is an example of how funding could be calculated for a company who spent \$1 million in labour costs on R&D and is eligible for a 44% tax credit rate. We have also assumed that the company receives \$150,000 in IRAP funding. This is for illustrative purposes only, as IRAP funding may be more or less than \$150,000 depending on project quality and funding availability.

Tax Credits and Grants	Total Eligible Salary Expenditure	SR&ED Proxy (overheads)	Total IRAP Funding	Total of Tax Credits	Total of Funding and Tax Credits	% of Spend Recovery
IRAP Only	\$1,000,000		\$150,000		\$150,000	15%
SR&ED Only	\$1,000,000	\$550,000		\$655,541*	\$655,541	65.5%
IRAP & SR&ED	\$1,000,000	\$550,000	\$150,000	\$592,102	\$742,102	74.2%

Although receiving both IRAP and SR&ED funding reduces the amount of tax credits earned, it increases the overall spend recovery.

* Please note that the example above is based on eligible expenditures incurred in Ontario at the enhanced SR&ED federal ITC rate.

Thank You!

For a complimentary assessment of your SR&ED claims and your eligibility for SR&ED tax credits, contact us at:

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For a complimentary assessment of your grant eligibility, contact us at

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Contact us

