

November 2008
Release No: 08-04

The New SR&ED Claim Form T661 – A Story in Words

In the fall of 2007, the Canada Revenue Agency (CRA) and the Department of Finance held consultations to determine how the Scientific Research and Experimental Development (SR&ED) program could be made more effective for Canadian businesses. The 2008 Federal Budget, released in March 2008, announced changes aimed at improving the administration of the SR&ED program including simplifying the process for filing a SR&ED claim.

As part of this process, on November 10, 2008 the CRA released a revised SR&ED claim form (Form T661) together with a revised guide to assist in its completion. If your business makes SR&ED claims, it is important that you understand the new form and assess the impact it will have on the way you gather and submit your project information to the CRA.

What are the key changes to Form T661?

New Form T661 is intended to simplify the SR&ED claim process. The old form had a number of schedules associated with it that have now been removed or incorporated into the form itself. While the financial sections have been reorganized to improve the flow of information, there were no significant changes made in this area.

Significant changes, however, have been made with respect to the provision of scientific or technological project descriptions which has now been incorporated into the form. The key changes include the following:

- Project descriptions will be provided right on Form T661 rather than as separate free-form attachments. Pictures and exhibits will no longer be accepted.
- Claimants will now have to provide the CRA with a description of all SR&ED projects being claimed. Previously, descriptions for only the 20 largest projects per year based on dollar value were required. This will likely mean more work for some companies when filing their SR&ED claims.
- The project questions have changed and will differ depending on whether a project is for experimental development or for scientific research. Claimants

will now have to report experimental development projects separately from scientific research projects.

- To facilitate their ability in identifying higher risk claims, the CRA has added specific questions on the form using a check-the-box or select from a list approach in order to obtain more project information in a standardized format.
- Claimants will now be subject to strict word limits on the project descriptions, covering questions on technological advancement and technological uncertainty. Form T661 will have a limit of 350 words each for the descriptions of technological advancements and the description of the obstacles that were overcome to achieve the advancements. In addition, there is a 700 word limit on the description of work performed.
- For each project, claimants will have to select from a defined list one specific field of science or technology that the project is attempting to advance and to disclose where the work occurred (e.g. in a dedicated research facility, laboratory or commercial production environment).
- The three key people involved in each project by name, position, title and experience or qualifications will now have to be identified on the form.
- Claimants must also now disclose the persons who prepared the project description in addition to disclosing the persons who assisted in the preparation of Form T661.
- Claimants will also be required to identify the type of evidence or documentation available to support each individual project by selecting from a list.

When does the new form have to be used?

The new form is effective as of November 10, 2008 and can be used immediately. For companies filing a SR&ED claim for a tax year ending on or before December 31, 2008, the CRA will accept either the new or the old version of the form. For tax years ending after December 31, 2008, however, the new version of the form is mandatory.

How do these changes affect you?

The changes contained in Form T661 will have important implications for SR&ED claimants. In particular, the limitation on the number of words allowed to describe the technological advancement and technological uncertainty sections of the claim form will certainly create some challenges for claimants. As a prescribed form, you will want to ensure Form T661 is completed correctly so the CRA does not deny your claim. Form T661 will now force claimants to provide succinct descriptions to support the technological aspects of the SR&ED claim.

The word limitation will allow the CRA to prepare the form for future internet filing of T2 returns with SR&ED claims, which is currently not possible. This goal has been emphasized as an important one for many claimants.

It is important to keep in mind that there have been no changes in tax policy or legislation that is driving the changes made to Form T661. As well, there are no changes to the CRA's treatment of missing or incomplete

information on the form and claimants are required to provide all relevant information requested.

If you have not already done so, now is a good time to ensure that your company has developed and implemented an efficient process for tracking the information required to prepare your SR&ED claim on a timely basis. If your company already has a process in place, it is crucial to take the time now to review this process in light of the changes to Form T661 and make any necessary adjustments to your process.

At BDO Dunwoody LLP, our National SR&ED practice is available to assist you with the review and completion of Form T661. Our SR&ED practice includes engineers with experience in various industries who can assist claimants in identifying SR&ED expenditures and segregate qualifying SR&ED costs from ineligible ones. Contact your BDO advisor to discuss how we can help you manage and complete your SR&ED claims with the CRA.

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