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**Federal grants
for Industrial**

IR&D IA

How to Apply

**INDUSTRIAL RESEARCH AND DEVELOPMENT INCENTIVES ACT
DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE**



**FEDERAL GRANTS
FOR INDUSTRIAL**

R & D

HOW TO APPLY

Canada
Published by the Industrial Research and Development Incentives Act

Department of Industry, Trade and Commerce

Ottawa, Canada.

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FOREWORD

The purpose of this brochure is to assist Corporations in submitting applications for a grant under the Industrial Research and Development Incentives Act (IRDIA). It incorporates experience gained in the administration of the Act to date and replaces the set of pamphlets issued in June 1967.

The information contained in the brochure has in part been condensed from the Industrial Research and Development Incentives Act and Regulations which govern the terms of the law by which the amount of a grant under the Act is determined and paid. Copies of the Act and Regulations have been included in SECTION 7 and Corporations are advised to examine the legislation before requesting a prior opinion or if they anticipate that they will be making an application for a grant.

If further assistance is required, Corporations are invited to write or telephone an applicable line branch, or the IRDIA Program Office of the Department of Industry, Trade and Commerce, Ottawa 4, Ontario.

| | Telephone No. |
|---|---------------|
| IRDIA Program Office (General Information) Branch | 613-992-1476 |
| (Industry Sector Information) | |
| Aerospace, Marine & Rail Branch | 613-995-6297 |
| Agriculture, Fisheries & Food Products Branch | 613-992-0012 |
| Apparel & Textiles Branch | 613-992-1081 |
| Chemicals Branch | 613-992-4761 |
| Electrical & Electronics Branch | 613-992-1091 |
| Machinery Branch | 613-992-0371 |
| Materials Branch | 613-992-1015 |
| Mechanical Transport Branch | 613-992-1024 |
| Wood Products Branch | 613-992-0095 |

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SECTION I

Program Principles and Eligibility

Commercial Secrecy

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PROGRAM PRINCIPLES AND ELIGIBILITY

The Industrial research and Development Incentives Act, (I.R.D.I.A.), provides for the payment of grants based on expenditures for scientific research and development carried out in Canada by a corporation in its fiscal year; i.e., the period for which income is reported for income tax purposes.

The incentive is available to taxable Canadian corporations carrying on business in Canada. Organizations and institutions exempt from income tax are not eligible.

Applications for grants under the Act must be submitted in retrospect and will be reviewed to determine if the expenditures claimed have been calculated in accordance with the Act and are for bona fide scientific research and development which, if successful, will be likely to benefit Canada. Interpretations of scientific research and development, and benefit to Canada are given in Sections 4 and 5 respectively.

On request from a corporation, prior opinions will be given as to whether anticipated projects would be likely to qualify as being scientific research and development, and likely to benefit Canada.

Generally speaking, grants will equal 25 per cent of capital expenditures made by an applicant for scientific research and development carried out in Canada in the year, and 25 per cent of the increase in eligible current expenditures made by the applicant in Canada over the average of such expenditures in a base period consisting of the five immediately preceding years. A corporation with no previous fiscal periods or an insufficient number to make up the required base period, deems the existence of the required number and reflects its R & D expenditures in those periods when it was not in existence as nil. The Act provides that the sum of the benefits payable with respect to current expenditures of corporations associated with each other may not exceed the benefits to which the corporations as a group would be entitled. Other eventualities such as short fiscal periods, disposal, loss or transfer of R & D property, etc., are provided for in the Act and Regulations which also defines "capital expenditures" and "eligible current expenditures".

Grants made under IRDIA are exempt from federal income tax, and do not reduce capital cost allowance under the Income Tax Act. Instead of receiving a grant, an applicant may elect to receive a credit on account of any income tax which is or may become payable under the Income Tax Act.

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COMMERCIAL SECRECY

Recognizing that scientific research and development plans and activities have a vital bearing on a company's competitive position and the information thereon is proprietary, the Department is required by law to treat any information required from the corporation in the strictest confidence. Such information may not be revealed to any person who does not have a need for it in the performance of duties connected with the administration of the program. All documents which contain proprietary information that are submitted in connection with the program should be marked "COMMERCIAL CONFIDENTIAL".

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SECTION 2

How to Apply for a Grant

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1. Method of Application

Three copies of an application for a grant with two copies of supporting information, should be submitted to:

IRDIA Program Office
Department of Industry, Trade & Commerce
Ottawa 4, Ontario

A copy of the application form is included at the end of this section, additional copies may be obtained from the Program Office.

In accordance with Section 3(3) of the Act, applications must be made within the next six months following the end of an applicant's grant period (fiscal period, which has the same meaning as in the Income Tax Act) or if the applicant is associated with any other corporations in its grant period the application must be made within the next six months following the end of the last of the associated fiscal periods ending in the grant period.

2. Details of Supporting Information Required

The content and form of the information submitted in support of an application for grant may vary considerably with the size of the corporation, type of industry, and similar factors. While it is not necessary to follow exactly the suggested formats, their use will speed the review of an application which the Department of Industry, Trade & Commerce must carry out prior to the payment of a grant. The following information is required:

(a) *Commercial and Technical*

(i) Description of Business and Markets

This should be a description of the corporation's ownership, products and markets including export markets, and the amount of the corporation's sales in the domestic market and in its various export markets. If the corporation is not free to exploit the results of research and development which it has financed in whole or in part in all export markets, a list of countries in which it is NOT FREE to exploit such results should be included. Details of any exclusive licences granted to particular countries or areas should also be included. A suggested format is shown on page 18.

(ii) Description of R & D Facilities

This should consist of a general description including location, floor area of R & D facility compared to total company floor area, general nature of work in progress, number and classification of professional staff (e.g., 2 physicists, 4 chemists, 10 engineers), number of technologists, number of other service staff, major equipment available (excluding routine laboratory equipment) and a general statement of the method of project identification and assignment within the organization. A suggested format is shown on page 19.

(iii) Description of R&D Projects or Programs

A description, approximately one page in length, of each project or program on which a claim is based, should be provided. It should state briefly and clearly the aim of the project, the problem to be solved, the parameters explored, any innovation that resulted from the work (when applicable) and the results accomplished during the period covered by the application.

Since the element of technological or scientific uncertainty present in the work is the chief factor used in the assessment, this element should be specifically mentioned in the work statement. The scientific method followed in attempting to resolve the uncertainty should also be described; that is, by describing what experiment, analysis or systematic investigations were conducted.

In addition, a statement should be included on the approximate number of hours spent on laboratory work, prototypes, pilot plant, and/or testings where applicable to the project. If the work is being supported under any government cost-shared program, this should be stated, together with the grant or contract number. If, as a result of this work, patents have been applied for, or granted, they should be indicated, since it is of benefit to the applicant to demonstrate that the work done represented a technical advance over the present state of the art.

A suggested format is shown on pages 20 and 21

(b) *Financial Administrative*

(i) Details of Project Expenditures and Labour Costs

A breakdown of expenditures is required for each major project together with a summary showing the total costs. This breakdown should reflect both direct and indirect costs under each cost heading and be given in detail. Overhead costs should be individually listed and an explanation given to show the method used to allocate common costs between the projects and other normal company operations. A breakdown of research and development labour for each project, divided between professional and support staff, is required in both dollars and man-hours. A suggested format is shown on page 22.

(ii) Payments Received for Research and Development

All amounts received from any source for research and development should be reported with complete supporting details. These payments would include all amounts received from government and other sources where research and development costs are supported by program assistance and/or prototype sales, material cost recoveries, laboratory service rentals and other recovery amounts from research and development activities regardless of country of origin or a contingent liability to repay the amounts at some future time.

(iii) Record of Capital Assets Acquired

This should include a list of all assets acquired wholly for research and development by capital expenditures during the year with respect to which an application for grant is being made, including reference number, asset or asset group number, brief description, acquisition date, and capital cost either by purchase or construction in-house. A suggested format is shown on page 23.

(iv) Record of Capital Assets Disposed Of

This should include a list of all capital assets previously acquired, in respect to which a grant has been paid, which have been disposed of or transferred from research and development during the period, appropriately cross-referenced and showing the amount to be recovered by virtue of the recovery provisions of the Act. A suggested format is shown on page 24.

3. Details of Supporting Information Required for Base Period

(a) *Determination of Average Eligible Current Expenditures in the Base Period*

Applicants are required to provide the length of each fiscal period in the base period and to show the calculation of the *average* expenditures. If the deductions from income permitted by Section 72A of the Income Tax Act have been made in any fiscal period in the base period, the calculations in such fiscal periods should be derived from data submitted to the Department of National Revenue and adjusted as provided in Section 6 of the Regulations. Where any change has been made from the amount originally claimed under Section 72A, a full explanation reconciling the amount to that originally claimed, should be given. If no deduction has been made as permitted under Section 72A in a fiscal period in the base period, this should be so stated and you should attach detailed schedules for any such period as per Item A(a) to (f) and Item B of the application form.

(b) *Determination of Base Period – Associated Corporations*

The base period for a corporation associated with an applicant is established in the same way as for the applicant, i.e., the base period is the five (5) fiscal periods immediately preceding the associated corporation's fiscal period which ends in or coincides with the same calendar year as the applicant's grant period. Full details of the calculation should be provided.

SUGGESTED FORMAT

COMMERCIAL CONFIDENTIAL
(when completed)

XYZ Company Limited

Description of Business and Markets

1) *Principal Source of Revenue*

i.e. Company manufactures and sells welded and seamless steel pipe tubing.

2) *Markets*

| <i>Market Area</i> | <i>Sales</i> |
|----------------------|--------------|
| Canada | \$XXXX |
| U.S.A. | XXXX |
| Europe | XXXX |
| (Other, Please list) | XXXX |

3) List of countries to which company is NOT FREE to exploit results of R&D.

| <i>Countries</i> | <i>Reasons</i> |
|------------------|----------------|
|------------------|----------------|

SUGGESTED FORMAT

COMMERCIAL CONFIDENTIAL
(when completed)

XYZ Company Limited

Description of R&D Facilities

1) *Location:*

2) *Description of Facilities*

i.e., A section of our plant comprising 1,000 sq. ft. or 5% of total plant area is maintained to conduct R&D activities related to etc. . . . Each project is identified by etc. . . . (please describe company's method of identifying and assigning projects within the organization).

The following equipment and personnel are elements of our R&D facilities:

Major Equipment

Personnel:

- a) Professional staff, (please list number and classification) i.e., chemists, etc.
- b) Technologists. (please list number and classification.)
- c) Draftsmen
- d) Service staff.

SUGGESTED FORMAT

COMMERCIAL CONFIDENTIAL
(when completed)

XYZ Company Limited
Scientific Research and Development Project Descriptions

| | | |
|----------------|--------------------|----------------------|
| Project Title: | | |
| Project No. | Fiscal Year Ending | Current Expenditures |

Purpose:

One or two paragraphs stating clearly the following:

- (a) The objective of the program and how it relates to the business aims of the company.
- (b) The scientific or technological uncertainty that must be resolved.
- (c) How the work represents an advance in scientific knowledge, or
- (d) In what way is a new or improved product, process, material or device to be accomplished.

Method:

One or two paragraphs explaining the following:

- (a) How the scientific method was used (i.e., the sequence of hypothesis, experimentation, observations and conclusion) in the pursuit of the above objective.
- (b) What variables or parameters were studied to resolve the scientific or technical uncertainty.
- (c) How the work to date represents one or all of: a feasibility study, experimentation, and/or evaluation of results.
- (d) Facilities and major items of equipment used.

Progress to Date:

A brief statement, outlining, starting and completion dates, what was accomplished during the period under application for grant, and the probable course of work on the project in future years.

Names and Qualifications of Key R & D Personnel:

State names, qualifications, years of experience and responsibilities.

Reports or Patents:

State titles, authors and dates of any reports or patents relating to the project.

Source of Funds:

If costs were shared, indicate the participation of each member.

Note:

The assessment of R & D eligibility of each project depends entirely on the adequacy of the technical description. Any relevant information which substantiates the originality of the work will strengthen its eligibility.

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(when completed).

Suggested Format for Information to Support an Application for Grant

(See Application for Grant Form)

DETAILS OF PROJECT EXPENDITURES AND LABOUR

| Current Expenditures | Total | Project 1 | Project 2 Etc. |
|--|-----------------|-----------|----------------|
| R&D Labour | | | |
| Professional staff (Scientists Engineers, etc.) | Dollars | | |
| | Man-hours | | |
| Support staff (technicians, laboratory assistants, draftsmen, etc.) | Dollars | | |
| | Man-hours | | |
| Direct Material (list major elements and amounts) | | | |
| Special Purpose Equipment (Describe purpose and nature) | | | |
| Miscellaneous Direct Charges (Include payments for outside services, consultants, computer fees, etc.) (List major elements and amounts) | | | |
| Direct Shop Labour Cost (If applicable) | | | |
| Indirect Expenses (excluding G&A) (List elements and amounts) | | | |
| General and Administrative (G&A) (List elements and amounts) | | | |
| TOTAL CURRENT EXPENDITURES PER PROJECT (The grand total of all projects should equal the aggregate of item (a) of the application) | | | |

COMMERCIAL CONFIDENTIAL
(when completed)

RECORD OF NEW CAPITAL ASSETS ACQUIRED IN THE GRANT PERIOD

(Important: Include all capital assets for which application is made.)
(See Application for Grant Form)

| Reference No. (1, 2, 3, etc.) | Asset or Asset Group No. | Brief Description | Acquisition Date | Capital Cost | | Remarks |
|----------------------------------|-----------------------------|-------------------|---------------------|--------------|-------------|---------|
| | | | | Purchased | Constructed | |
| | | | | | | |

COMMERCIAL CONFIDENTIAL

(when completed)

**RECORD OF CAPITAL ASSETS DISPOSED OF, TRANSFERRED
TO OTHER USE, LOST, DAMAGED OR DESTROYED DURING THE GRANT PERIOD**

(Important: Cross-reference, using original asset or asset group number)
(See Application for Grant Form)

| Reference No. (1, 2, 3, etc.) | Asset or Asset Group Number | Brief Description | Acquisition Date | Capital Cost | Amount of Grant Recoverable as per Regulations | Remarks |
|----------------------------------|-----------------------------------|-------------------|---------------------|-----------------|--|---------|
| | | | | | | |

SIDE 1

**COMMERCIAL CONFIDENTIAL
(WHEN COMPLETED)**

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| FOR FISCAL YEAR: FROM TO |
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DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE

**APPLICATION FOR GRANT UNDER THE INDUSTRIAL
RESEARCH AND DEVELOPMENT INCENTIVES ACT**

| |
|--|
| Normally application must be made within six months following fiscal year end. (For exceptions see Act Sec. 3 (3) & (4)) |
|--|

INSTRUCTIONS: PARTS I, II AND IV are for use by an applicant who, in the grant or base period, was not associated with any other corporation(s). PARTS I, III and IV are for use by an applicant who, in its grant or base period, was associated with some other corporation(s). A detailed instruction pamphlet is available from the PROGRAM OFFICE, INDUSTRIAL RESEARCH AND DEVELOPMENT INCENTIVES ACT, DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE, OTTAWA 4, CANADA, to which address three typewritten copies of this completed form, attached schedules and other supporting information should be mailed. The Act and Regulations, which contain the terms of the law on which a grant is determined, and the instruction pamphlet should be read before completing the application.

SUPPORTING INFORMATION

The following additional information must be submitted with this application: (a) Summary of Projects or Programs, (b) Cost Break-down, (c) Lists of Capital Assets Acquired and Disposed of, (d) Description of R & D Facilities, and (e) Description of Products and Markets. See instruction pamphlet for suggested formats.

| NAME OF APPLICANT | MAILING ADDRESS | TELEPHONE NUMBER |
|--|---------------------|------------------|
| PART I - TO BE COMPLETED BY ALL APPLICANTS (Attach schedules for Item A(a) to (f) and B) | | |
| A. AGGREGATE CURRENT EXPENDITURES IN CANADA IN GRANT PERIOD | | |
| (a) CURRENT EXPENDITURES ON SCIENTIFIC RESEARCH AND DEVELOPMENT (R. & D.) See Act, Sec. 5(1)(a)(i) and Regulations | | \$ |
| PAYMENTS | | |
| (b) TO AN APPROVED ASSOCIATION. Sec. 5(1)(a)(ii)(A) | | \$ |
| (c) TO AN APPROVED UNIVERSITY, COLLEGE, RESEARCH INSTITUTE, ETC. Sec. 5(1)(a)(ii)(A) | | \$ |
| (d) TO A RESIDENT NON-PROFIT CORPORATION CONSTITUTED FOR R. & D. Sec. 5(1)(a)(ii)(B) | | \$ |
| (e) TO A RESIDENT CORPORATION INCORPORATED IN AND CARRYING ON BUSINESS IN CANADA (Sec. 5(1)(a)(ii)(C)) | | \$ |
| (f) REPAYMENTS (INTEREST EXCLUDED) OF OR ON ACCOUNT OF AMOUNTS PAID TO THE APPLICANT UNDER THE DOI PROGRAM FOR THE ADVANCEMENT OF INDUSTRIAL TECHNOLOGY OR THE DEFENCE DEVELOPMENT ASSISTANCE PROGRAM. Sec. 5(1)(a)(iii) | | \$ |
| ▶ AGGREGATE CURRENT EXPENDITURES ON SCIENTIFIC R. & D. IN GRANT PERIOD. TOTAL OF A. | | \$ |
| B. AMOUNTS PAID TO APPLICANT IN GRANT PERIOD FOR R. & D. Sec. 5(1)(b) AND OTHER AMOUNTS TO BE SUBTRACTED. Sec. 5(1)(c) and (d) and Regulations | | |
| | | \$ |
| C. AVERAGE OF ELIGIBLE CURRENT EXPENDITURES IN BASE PERIOD. Sec. 6 & 7. (Give length of each fiscal period in base. Show calculation of the average. If the deductions from income permitted by Section 72A of the Income Tax Act have been made in any fiscal period in the base, the calculation in such fiscal periods should be derived from the data submitted to the Minister of National Revenue adjusted as provided in Section 6 of the Regulations. Where adjustments are made, give details. If no deduction has been made as permitted under Section 72A in a fiscal period in the base, attach detailed schedules for any such period as per Item A(a) to (f) and Item B.) | | |
| | | \$ |
| D. ▶ | TOTAL OF B. AND C. | \$ |
| E. ▶ INCREASE IN CURRENT EXPENDITURES | Subtract D. from A. | \$ |
| PART II - TO BE COMPLETED BY APPLICANT WHO, IN ITS GRANT OR BASE PERIOD, WAS NOT ASSOCIATED WITH ANY OTHER CORPORATION(S). (Attach detailed schedules for F. and I.) | | |
| CALCULATION OF GRANT | | |
| E. INCREASE IN CURRENT EXPENDITURES (Repeat from PART I) | | |
| | | \$ |
| F. AGGREGATE OF APPLICANT'S CAPITAL EXPENDITURES ON R. & D. IN GRANT PERIOD (BY ACQUIRING PROPERTY OTHER THAN LAND). Sec. 4(1)(a) and Regulations | | |
| | | \$ |
| G. ▶ TOTAL ALLOWABLE R. & D. EXPENDITURES | Add E. and F. | \$ |
| H. ▶ GRANT APPLIED FOR WITH RESPECT TO THIS GRANT PERIOD | Enter 25% of G. | \$ |
| I. AGGREGATE OF AMOUNTS RECOVERABLE IN RESPECT OF CAPITAL EXPENDITURES MADE IN PREVIOUS GRANT PERIODS AND NOT REPAID. Sec. 10(1) and (2) and Regulations | | |
| | | \$ |
| J. ▶ NET GRANT <input type="checkbox"/> OR CREDIT AGAINST TAX LIABILITIES <input type="checkbox"/> | Subtract I. from H. | \$ |

PARTS III AND IV ON SIDE 2 - ALL APPLICANTS TO COMPLETE AND SIGN PART IV

THIS FORM IS AUTHORIZED AND PRESCRIBED BY THE MINISTER OF INDUSTRY, TRADE AND COMMERCE

COMMERCIAL CONFIDENTIAL
(WHEN COMPLETED)

PART III - TO BE COMPLETED BY APPLICANT WHO, IN ITS GRANT OR BASE PERIOD, WAS ASSOCIATED WITH SOME OTHER CORPORATION(S). (Applicant to attach detailed schedules for I. and L. below)
List below the names and mailing addresses of all associated corporations. Sec. 4(3) of the Act.

| | | |
|----------------------------|----|--|
| ASSOCIATED IN GRANT PERIOD | 1. | |
| | 2. | |
| | 3. | |
| | 4. | |
| PREVIOUSLY ASSOCIATED | 5. | |
| | 6. | |

CALCULATION OF GRANT (Applicant to transfer totals for A, B, C, D and E from PART I)

| ORGANIZATION | 1. AGGREGATE CURRENT EXPENDITURES ON SCIENTIFIC R. & D. IN GRANT PERIOD (Sec. 5(1)(a) and Regulations, | 2. AMOUNTS PAID TO (Sec. 5(1)(b)) and AMOUNTS TO BE SUBTRACTED (Sec. 5(1)(c) and (d) and Regulations) | 3. AVERAGE OF ELIGIBLE CURRENT EXPENDITURES IN BASE PERIOD (Sec. 6 & 7) | 4. TOTAL OF 2. AND 3. | 5. INCREASES IN CURRENT EXPENDITURES: SUBTRACT 4. from 1. (Show NIL if 4. exceeds 1.) |
|----------------------------|--|---|---|-----------------------|---|
| APPLICANT | \$ (A) | \$ (B) | \$ (C) | \$ (D) | \$ (E) |
| ASSOCIATED IN GRANT PERIOD | 1. | | | | |
| | 2. | | | | |
| | 3. | | | | |
| | 4. | | | | |
| PREVIOUSLY ASSOCIATED | 5. | | | | |
| | 6. | | | | |
| COLUMN TOTALS | \$ | | | \$ | |

TOTAL OF COLUMN 5 = F \$

| | |
|--|----|
| G. ▶ INCREASE IN CURRENT EXPENDITURES FOR THE GROUP OF CORPORATIONS: Subtract Column 4 total from Column 1 total | \$ |
| H. ▶ SHARE OF INCREASE ATTRIBUTABLE TO APPLICANT: $\frac{\text{Amount E}}{\text{Amount F}} \times \text{Amount G}$ | \$ |
| I. AGGREGATE OF APPLICANT'S CAPITAL EXPENDITURES ON R. & D. IN GRANT PERIOD (BY ACQUIRING PROPERTY OTHER THAN LAND) Sec. 4(2)(a) and Regulations | \$ |
| J. ▶ TOTAL ALLOWABLE R. & D. EXPENDITURES: Add H. and I. | \$ |
| K. ▶ GRANT APPLIED FOR WITH RESPECT TO THIS GRANT PERIOD: Enter 25% of J. | \$ |
| L. AGGREGATE OF AMOUNTS RECOVERABLE IN RESPECT OF CAPITAL EXPENDITURES MADE IN PREVIOUS GRANT PERIODS AND NOT REPAID. Sec. 10(1) and (2) and Regulations | \$ |
| M. ▶ NET GRANT <input type="checkbox"/> OR CREDIT AGAINST TAX LIABILITIES <input type="checkbox"/> Subtract L. from K. | \$ |

PART IV - TO BE COMPLETED AND SIGNED BY ALL APPLICANTS

CERTIFICATION, UNDERTAKING AND AUDITOR'S REPORT (Type Name and Title Under Each Signature)

CERTIFICATION: I CERTIFY that this application, including accompanying schedules and statements, is complete and true; all scientific research and development work described in the statements which the corporation financed in whole or in part was carried on to strengthen its business or facilitate an extension of its business; and the corporation is free to exploit the results of such work in Canada and all export markets other than the countries named in the statements.

| | | | |
|------|--|------|---|
| Date | Signature of An Authorized Signing Officer | Date | Signature of Official in Charge of Research & Development |
|------|--|------|---|

UNDERTAKING: The corporation undertakes to exploit in Canada the results of the research and development described in the certification unless, according to sound business judgment, it would be uneconomic to do so.

Date

Company Seal

Signature of An Authorized Signing Officer

AUDITOR'S REPORT: We have examined the application for grant under the Industrial Research and Development Incentives Act of _____ Limited for the year ended _____. Our examination included a general review of the accounting procedures, with particular reference to direct and overhead costs constituting the amounts of research and development expenditures listed in the application; the determination of what constitutes research and development was made by the company based on its interpretation of the Industrial Research and Development Incentives Act and Regulations thereunder. We have made such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, having regard to the Industrial Research and Development Incentives Act and Regulations thereunder, the application for grant presents fairly the amount of research and development expenditures listed therein for the year ended _____, determined on a reasonable and appropriate basis of accounting consistent with that of the preceding year.

Date

Public Accountants

SECTION 3

How to Request a Prior Opinion

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REQUESTS FOR PRIOR OPINIONS

On request from a corporation, prior opinions will be given as to whether particular expenditures, if incurred, would likely qualify as being scientific research and development and benefit to Canada.

To obtain a prior opinion, two copies of a statement describing the project, together with relevant supporting information, should be submitted. While a standard form may not be appropriate in all cases, a suggested format is shown on pages 31 and 32. The use of the format is not mandatory but will speed the reply to a request.

The request should be forwarded to:

IRDIA Program Office
Department of Industry, Trade & Commerce
Ottawa 4, Ontario

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SUGGESTED FORMAT**COMMERCIAL CONFIDENTIAL**
(when completed)

Date:

Program Office,
 Industrial Research and
 Development Incentives Act,
 Department of Industry, Trade & Commerce,
 Ottawa 4, Ontario

**REQUEST FOR A PRIOR OPINION AS TO ELIGIBILITY UNDER
 THE INDUSTRIAL RESEARCH AND DEVELOPMENT INCENTIVES ACT**

Name of Applicant

Telephone No.

Address

PROJECT TITLE**APPROXIMATE COST****DESCRIPTION OF PROJECT (may be an attachment)**

A sufficiently detailed description of the project that will enable persons having knowledge in the field concerned to determine if the work qualifies as scientific research and development is required. The description need not be lengthy but should outline the objective, the method of work to be followed explaining the scientific or technological uncertainties to be overcome, the names and qualifications of professional personnel who will carry out the work, and the major items of equipment that will be required.

INFORMATION ON BUSINESS AND MARKETS (may be an attachment)

This should be a brief description of the corporation's facilities, business, value of sales in the domestic and various export markets and, if the corporation is not free to exploit the results of the research and development in all export markets, the countries in which it is NOT FREE to exploit such results should be given. If the IRDIA Program Office is already in possession of this information, only pertinent additional information need be supplied.

In giving the above information, it should be kept in mind that the Regulations provide that scientific research and development work will be considered likely to benefit Canada if an applicant is free to exploit the results of research and development work, which it has financed in whole or in part, in Canada and in all export markets, and the applicant undertakes to exploit such results in Canada unless, according to

sound business judgment, it would be uneconomic to do so. Where an applicant is NOT FREE to exploit such results in all export markets, an application will be considered on its merits. In such circumstances, a grant may be paid if the Department of Industry, Trade & Commerce is satisfied that the corporation is actively exploiting the export markets open to it or is taking steps to widen the markets in which it is free to exploit results. (See also Page 15, Section 2 (a)(i))

If the project is supported by, or an application is currently under review with any of the following government assistance program, your advice as to the program name and contract number should be given.

Department of Industry, Trade & Commerce

Defence Industry Productivity (DIP)
Program for the Advancement of Industrial Technology (PAIT)

Defence Research Board

Defence Industrial Research Program (DIR)

National Research Council

Industrial Research Assistance Program (IRAP)

REMARKS:

SECTION 4

Interpretation of Scientific R&D

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Definition of Scientific Research and Development

The following definition is an extract from Section 2(2)(d) of the Regulations:

“scientific research and development” means systematic investigation or search carried out in a field of science or technology by means of experiment or analysis, that is to say,

- (i) basic research, namely, work undertaken for the advancement of scientific knowledge without a specific practical application in view,
- (ii) applied research, namely, work undertaken for the advancement of scientific knowledge with a specific practical application in view, and
- (iii) development, namely, use of the results of basic or applied research for the purpose of creating new, or improving existing materials, devices, products or processes,

and, where such activities are undertaken directly in support of scientific research and development, includes activities with respect to engineering or design, operations research, mathematical analysis or computer programming and psychological research, but does not include activities with respect to

- (iv) market research or sales promotion,
- (v) quality control or routine testing of materials, devices or products,
- (vi) research in the social sciences or the humanities,
- (vii) prospecting, exploring or drilling for or producing minerals, petroleum or natural gas,
- (viii) the commercial production of a new or improved material, device or product or the commercial use of a new or improved process,
- (ix) style changes, or
- (x) routine data collection.

Interpretation of Definition of Scientific Research and Development

(A) *Research and Development*

The primary objective of scientific research and development is to achieve a scientific or technical advance. The work elements which comprise a research and development project are those tasks which are essential to attaining the primary objective.

Work whose primary purpose falls within the stages of feasibility research, experimentation and evaluation of experimental results during the evolution of new product or process, is eligible for grant. However, *two essential conditions must be fulfilled: the principle of uncertainty and scientific content.*

The principle of uncertainty requires that the probability of obtaining a given technical objective can not be known or determined in advance on the basis of current knowledge or experience; that is the outcome of the project work can not be predicted. The technological or scientific uncertainty can only be removed through a program of systematic investigation, experimentation and analysis, by the use of the scientific method.

The criteria of scientific content implies that:

1. the scientific method is applied in a systematic progression of work from hypothesis to experiment, observation and evaluation, followed by logical conclusions;

2. qualified personnel having a degree in science or engineering, or adequate experience, are responsible for the direction and performance of the R&D work;

Examples of the eligible fields of science are the following:

- a) Physical sciences; i.e., the sciences of material phenomena
 - i) Chemistry
 - ii) Physics
 - iii) Geology
 - iv) Meteorology
 - v) Others not specifically mentioned.

- Biological sciences; i.e., the sciences of living things
 - i) Biology, divided into Botany and Zoology
 - ii) Paleontology
 - iii) Pathology
 - iv) Others not specifically mentioned.

Not all the work elements in a research and development project will involve innovation. For example, although engineering work, per se, is not considered to be scientific research and development and is not eligible under IRDIA, engineering carried out in support of research and development would be eligible. It is recognized that the practice of engineering does not normally involve scientific uncertainties; its function is to assemble the established technological information on any subject, to select whatever is pertinent, and from it work out a practical design. If the result is not in accordance with expectations, the cause of failure would be either the incorrect application of engineering principles or errors of information, neither of which would constitute a gap in essential scientific knowledge. Similar considerations would apply to other professional skills such as computer programming, mathematical analysis and operations research.

Similarly, the collection or publication of daily routine statistics, or the collection of general broad purpose data, is not research and development. However, the systematic analysis or the gathering of data for the purpose of explaining a scientific phenomenon or of advancing scientific knowledge would be considered scientific research and development.

Process Optimization and Cost Reduction

Process optimization and cost reduction are not considered to be scientific research and development. The necessary skills and knowledge for achieving process optimization, greater productivity, greater efficiency and low unit costs of production are the normal attributes of a competent management. They are represented, for example, by the functions of industrial engineering, time-and-motion analysis, methods engineering, value analysis and engineering, tool and machine design, etc.

When these skills are utilized in any situation requiring an improvement, a trend toward optimal conditions will normally ensue, and the law of diminishing returns will be the only limitation upon the attainable degree of improvement.

Thus, process optimization, or cost reduction, does not involve any scientific uncertainty of outcome: for a given effort or application of skills, a predictable outcome results (improved cost, yield or quality).

(B) Distinguishing Development and Production

In distinguishing development and production, the following criteria will be applied.

If the primary objective is to further improve the product or process by incorporating a significant technical advance, the work comes within the definition of development, provided also that the method followed is that of systematic investigation or search by means of experiment or analysis. If however, the product or process is or has been substantially established and the primary purpose is

- a) market development
- b) pre-production planning
- c) industrial, methods, plant or production engineering
- d) cost reduction
- e) production control,

then the work is no longer development.

Thus it follows that the design, construction and testing of prototypes will be included in scientific research and development. Prototypes are the original models or standards and improvements thereto to which the product must conform in the production phase. Production models, however, are not prototypes attributable to scientific research and development and the first units of trial production prior to regular production may not be classified as prototypes.

When prototypes are created from production tooling, an appropriate charge for production tooling may be attributed to the prototype. No charges for production tooling, other than the foregoing, may be attributed to scientific research and development.

Also included in development is the engineering work required to advance the design of a product or process through the period of successive experimental tests and analysis until the point is reached where specific functional requirements are met. At this point, the results can be turned over the manufacturing units but the activities involved in turnover to manufacturing are not attributable to development. If further development should be required, however, to solve remaining technological problems after handover has been accomplished, such further development will be included in research and development.

(C) Pilot Plants

The construction and operation of a pilot plant whose primary purpose is non-commercial may be included in research and development so long as the main purpose is to obtain engineering and other data to be used in evaluating hypothesis, in writing product formulae or in establishing finished product specifications or in designing special equipment and structures required by a process. Once this experimental phase is over it may be possible to use a pilot plant as a production unit but the cost involved must be credited to current expenditures when so transferred. At this point its operating costs can no longer be attributed to research and development.

(D) Use of Production Facilities

Where it is customary or convenient to assign a production facility or piece of production equipment temporarily to scientific research and development work for purposes similar to those listed above for a pilot plant, an appropriate charge for the use of the production facilities may be included in the cost of scientific research and development work. Such a charge cannot include compensation for lost production.

(E) Design and Drawings

The cost of design of prototypes, pilot plants, special equipment and buildings required for scientific research and development is included in scientific research and development. The cost of preparing drawings, reports, formulae and specifications necessary to the handover of results of scientific research and development is included in scientific research and development. However, the preparation of drawings, instructions, data sheets, bulletins, manuals, catalogues and other descriptive documents pertaining to

- a) commercial production
- b) production control
- c) sales promotion
- d) quality control
- e) customer service

will not be included in scientific research and development.

SECTION 5

Interpretation of Benefit to Canada

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Interpretation of Benefit to Canada

A review of an application must determine that the corporation has satisfied the benefit to Canada criteria of Section 4 of the Regulations. Where a corporation has certified and the Minister is satisfied that . . .

- (a) the scientific research and development was carried on for the purpose of strengthening the business of the corporation or facilitating an extension of such business,
- (b) the corporation is free to exploit the results of all of such scientific research and development in Canada, and
- (c) the corporation is free to exploit the results of all such scientific research and development in all export markets.

he shall conclude that such scientific research and development is likely to result in benefit to Canada if successful.

The meaning of the work "exploit" is contained in the Regulations. It will be observed that it means to manufacture the developed good or use the developed process in Canada, and to sell the developed good or goods produced from the developed process in Canada and all export markets.

If the research and development does not meet all of the above conditions, the Minister has discretion to decide whether or not the R&D is likely to benefit Canada. However, in the long term the principles established by the Regulations will be departed from only in exceptional circumstances.

Where a corporation is not free to exploit the results of scientific research and development in all export markets, it is required to submit a statement of countries to which it is not free to exploit such results. The list should also include the reasons why these countries are excluded in that the reasons may be relevant to the assessment.

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SECTION 6

Interpretation of R&D Cost Regulations

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Costing Guide

This costing guide is provided to assist corporations when applying for a grant under the Industrial Research and Development Incentives Act and Regulations.

The general rule is that the costs of performing qualified research and development work shall consist only of expenditures wholly attributable to the prosecution of or the provision of facilities for scientific research and development in Canada and shall consist of (1) Capital Expenditures, and (2) Current Expenditures.

1. Capital Expenditures

(i) Capital expenditures are defined by the Regulations which will govern in particular instances. Normally, expenditures incurred for the following would qualify:

- (A) new buildings, including component parts such as electric wiring, plumbing, sprinkler systems, air conditioning equipment, heating equipment, lighting fixtures; elevators and escalators, in which scientific research and development is carried on, or that portion of such buildings the use of which may be reasonably attributed to such scientific research and development. (Where new buildings or research facilities are erected by the applicant, the cost of the building or research facility may include the capitalization of overhead costs directly related to the cost of construction);
 - (B) renovation or alterations to existing buildings used or to be used for the purpose of carrying on scientific research and development;
 - (C) new general purpose equipment acquired solely for carrying on scientific research and development, including general purpose laboratory equipment, instrumentation, tools and machinery;
 - (D) new office equipment acquired solely for the support of scientific research and development activities; and
 - (E) initial stock of laboratory tools, glassware and accessories, but not replacement thereto.
- (ii) Capital expenditures, however, do NOT include expenditures for:
- (A) used property;
 - (B) property with a useful life of less than one year;
 - (C) property with a value less than one hundred dollars;
 - (D) special purpose equipment;
 - (E) prototypes;
 - (F) the maintenance or repair of property; and
 - (G) the capitalization of any deferred cost.

2. Current Expenditures

Costs which may be included in current expenditures are defined in the Regulations.

Insofar as costs of a current nature are concerned, the rule is that such costs shall consist only of expenditures made in Canada in connection with scientific research and development work. Corporations are advised to establish and keep accounting records of their overhead costs on the basis of separate burden centres for their scientific research and development operations. This will greatly facilitate the review of applications and speed the payment of grants.

Where services, facilities and premises used for scientific research and development are shared with other parts of a large organization, an appropriate portion of the organization's overhead cost may be allocated to scientific research and development. As a general principle, only overheads directly attributable to scientific research and development will be allowed.

No definitions of the elements of cost may be stated which are of invariable application to all corporations but in general they will include:

I. DIRECT ENGINEERING, SCIENTIFIC OR TECHNICAL LABOUR

Compensation of professionally qualified engineers, scientists, technologists, technicians, draftsmen properly chargeable to research and development, including wages, salaries and other normal payroll costs of scientific research and development staff.

II DIRECT SHOP LABOUR

Laboratory, experimental or development shop labour performed directly on and properly chargeable to research and development, including fabrication of models, prototypes, etc.

III. DIRECT MATERIAL

Materials and equipment (other than capital equipment) used up directly on the project, and the cost of prototypes or models made outside the corporation. In addition, Direct Material includes materials purchased solely for research and development work and processed in-house, or material obtained from sub-contractors, or any other material issued for the work from general stocks. All materials shall be charged to the work at the net laid-down price after deducting all trade discounts and other similar items. Costs shall be credited with the amount received from the sale of all scrap produced from materials charged to research and development work, whether in manufacturing processes or rejects due to design changes. Costs shall also be credited with the amount received from the sale of prototypes previously used for research and development purposes, or from the sale of the output from a pilot plant, the cost of operation of which is being claimed as a research and development expense.

IV. MISCELLANEOUS DIRECT CHARGES

Items properly chargeable directly to research and development work, but which do not fall within any of the above categories. For example, computer rental, fees paid to consultants, or for testing services, or for travelling expenses. Enough details with regard to the nature of the work carried out should be given in each case in order that the expenditures may be identified as being in respect of research and development.

V. INDIRECT EXPENSES

- (a) Labour: supervision and inspection, clerical or time-keeping or tool crib personnel, cleaners, watchmen, etc.
- (b) Supplies: shop fuel, lubricants, waste, non-durable tools and gauges, etc.

- (c) Service Expenses: expenses of a general nature such as power, heat, light, operation and maintenance of assets and facilities.
- (d) Fixed Charges: recurring charges such as property taxes, rentals (other than rentals for use of Crown-owned assets), and reasonable provision for allowances in respect of the capital cost of assets not purchased solely for research and development purposes. *Reasonable provision for allowances in respect of such capital cost shall be calculated at rates in accordance with the company's normal accounting practice but in no case shall these rates exceed those established from time to time by Income Tax regulations, except that additional allowances in respect of capital cost shall not be allowed.*
- (e) Miscellaneous Indirect Expenses: items such as purchasing expenses, employees' welfare, employer's payments to any federal unemployment or health funds, but not including payments deducted from or chargeable to employees' wages or pension and retirement payments.
- (f) Administrative Expenses: only administrative expenses directly attributable to the research and development function are allowable. Included may be salaries or a portion of salaries of appropriate corporate and executive officers, janitors, cleaners, miscellaneous office and administrative expenses such as stationery, office supplies, postage and other necessary office expenses.

VI. SPECIAL PURPOSE EQUIPMENT

Will include those items specified in 2(1)(d) of the Regulations, i.e., without substantial modification the equipment can only be used for

- (i) the development or manufacture of goods of a particular kind;
- (ii) the performance of a particular kind of service or;
- (iii) the carrying out of experimental tests of a particular kind.

Equipment included in this classification will be such that it will have no further utility to the applicant or to anyone else if the R&D project fails, i.e., it will have no value apart from the scrap and salvage value of whatever material (e.g., gauges; instrumentation, motors mechanisms) entered into its construction. Prototypes should be included in this class.

VII. CURRENT EXPENDITURES SPECIFICALLY EXCLUDED

Current expenditures DO NOT include as cost any of the following items excluded by the Regulations (Section 2(2)(b)):

- (i) any expense incurred in respect of
 - (A) interest on any obligation or dividends on invested capital,
 - (B) entertainment,
 - (C) dues or fees in respect of membership in other than scientific or technical societies or organizations,
 - (D) excess facilities,
 - (E) discounting or financing bonds or bond issues,
 - (F) premiums for insurance on the lives of officers or executives,
 - (G) legal services of any kind,
 - (H) accounting or other professional services in connection with corporate reorganization, security issues or capital stock issues,

- (I) patent, trade mark, copyright, industrial design or other like matters, except an expense incurred in instructing, or in preparing or collecting information and material for the purpose of instructing, a person with respect to the preparation or prosecution of an application for a patent,
- (J) the collection of amounts owing,
- (K) advertising or selling, or
- (L) federal or provincial income or excess profit taxes or surtaxes,
- (ii) a depreciation allowance on
 - (A) a building or item of equipment paid for by or with money provided by the Crown,
 - (B) property in respect of which a deduction in computing income for the purposes of the *Income Tax Act* has been made as permitted by Section 72 of that Act or
 - (C) where a grant has been authorized to be paid or a previous application is pending in respect of an expense incurred in the acquisition, renovation or alteration of property, such property,
- (iii) charitable donations,
- (iv) fines or penalties of any kind,
- (v) the amortization of unrealized appreciation of asset values,
- (vi) reserves for repairs, contingencies, compensation insurance or guaranteed work,
- (vii) bad debts or losses on investments.
- (viii) where a grant has been authorized to be paid or a previous application is pending in respect of a depreciation allowance on property, any expense incurred with respect to the acquisition, renovation or alteration of the property; or
- (ix) any expense that is not of a current nature, except an expense incurred in respect of special purpose equipment.

3. Allocation of Indirect Expenses

No general rule is applicable in all cases. The proper proportion of indirect costs chargeable to research and development work will depend on the facts and circumstances relating thereto, subject, however, to the requirement that all items which have no relation to the work shall be eliminated from the amount to be allocated.

When a portion of common costs have been allocated as research and development expenditures the method used to allocate the costs between research and development and other company activities should be fully described. The reasonableness of the method of allocation used must be supported by appropriate data such as company's audited financial statements.

The following should be considered:

Engineering Burden

Overhead costs which support the scientific or engineering staff should be segregated from normal overheads and accumulated in separate accounting records. Major items comprising engineering overhead should be provided.

Factory Overhead

Normally factory overheads should be allocated as research and development expenditures in proportion to the amount of direct factory labour utilized for research and development activities. Where factory overhead is charged, a schedule of the elements and amounts included as well as a brief explanation of how the rate is calculated should be provided.

General and Administrative Overhead (G&A)

Where overhead of this class is included care should be taken to reconcile the amounts charged with the total company administrative costs. Ineligible administrative costs should be removed and the method of allocation between research and development and other company operations clearly shown. In this regard the Department will normally consider a pro-ration of G&A expense to research and development in relation to the cost of production as an equitable method. Other methods of proration may be considered but they should be fully detailed and supported in the application. Methods based on subjective estimates of time spent by managerial staff are not considered to be suitable methods of pro-ration.

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SECTION 7

Industrial Research and Development Incentives Act and Regulations

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14 - 15 - 16 ELIZABETH II.

CHAP. 82

An Act to provide general incentives to industry for the expansion of scientific research and development in Canada and to effect certain related amendments to the Income Tax Act.

[Assented to 10th March, 1967.]

HER Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

SHORT TITLE.

1. This Act may be cited as the *Industrial Research and Development Incentives Act*. Short title.

INTERPRETATION.

2. (1) In this Act,
- | | | |
|-----|---|--|
| (a) | "applicant" means a corporation that has applied for a grant; | Definitions. "Applicant." |
| (b) | "application" means an application for a grant; | "Applica- tion." |
| (c) | "approved" means approved by the Minister; | "Approved." |
| (d) | "average of eligible current expenditures" by a corporation in its base period means an amount calculated in accordance with section 7; | "Average of eligible current expen- ditures." |
| (e) | "base period" of a corporation has the meaning assigned by section 6; | "Base period." |
| (f) | "corporation" means a corporation incorporated in and carrying on business in Canada, other than a corporation that is exempt from tax under Part I of the <i>Income Tax Act</i> by section 62 of that Act; | "Corpo- ration." |
| (g) | "eligible current expenditures" by a corporation in a fiscal period means an amount calculated in accordance with section 5; | "Eligible current expendi- tures." |

2 Chap. 82. *Industrial Research and Development.* 14-15-16 ELIZ. II.

- "Fiscal period."
"Grant."
"Grant period."
"Minister."
"Regulation."
Associated corporations.
Other expressions.
- (h) "fiscal period" in respect of a corporation has the same meaning as in the *Income Tax Act*;
(i) "grant" means a scientific research and development grant under this Act;
(j) "grant period" means the fiscal period of an applicant in respect of which an application is made;
(k) "Minister" means the Minister of Industry; and
(l) "regulation" means a regulation made by the Governor in Council pursuant to section 14.
(2) For the purposes of this Act, two or more corporations shall be deemed to be or to have been associated with each other in a fiscal period if, for the purpose of section 39 of the *Income Tax Act*, the corporations are or were, as the case may be, associated with each other in that period.
(3) A reference in this Act
(a) to a fiscal period or a grant period ending in a calendar year, means the fiscal period or the grant period, as the case may be, ending in or coinciding with that year;
(b) to a fiscal period ending in a grant period, means a fiscal period coinciding with that grant period or the fiscal period ending first in the same calendar year as that grant period; and
(c) to expenditures on or for scientific research and development, includes only expenditures incurred for and wholly attributable to the prosecution of or the provision of facilities for the prosecution of scientific research and development in Canada and such other expenditures attributable to the prosecution of or the provision of facilities for the prosecution of scientific research and development in Canada as may be prescribed by regulation.

SCIENTIFIC RESEARCH AND DEVELOPMENT GRANTS.

- Scientific research and development grant authorized.
Research and development likely to benefit Canada.
- 3.** (1) Upon application therefor to the Minister by a corporation that has made expenditures on scientific research and development in a fiscal period of the corporation, the Minister may, subject to this Act and the regulations, authorize the payment to the corporation of a scientific research and development grant in respect of those expenditures.
(2) No expenditure by a corporation in respect of scientific research and development shall be taken into account for the purposes of any provision of this Act unless the Minister, on the basis of such information as is sub-

mitted to him pursuant to this Act and such other information as he considers relevant, is satisfied that the scientific research and development in respect of which the expenditure was made is likely to result in benefit to Canada if it is successful, and, where the Minister is not so satisfied,

- (a) no amount paid to the corporation in respect of such scientific research and development, and
- (b) no property acquired by the corporation for the purposes of such scientific research and development,

shall be taken into account for the purposes of any provision of this Act.

- (3) An application under subsection (1) Application.
 - (a) shall be made within
 - (i) the six months next following the end of the applicant's grant period,
 - (ii) where the applicant was associated in its grant period with another corporation, the six months next following the end of the fiscal period of the other corporation ending in the grant period,
 - (iii) where the applicant was associated in its grant period with two or more other corporations, the six months next following the end of the last of the associated corporations' fiscal periods ending in the grant period, or
 - (iv) the six months next following the day on which this Act comes into force, whichever period ends last;
 - (b) shall contain such information as is specified by a regulation made under paragraph (c) of section 14 and as may be prescribed by the Minister; and
 - (c) shall be in such form and be certified in such manner as may be prescribed by the Minister.

(4) If the Minister is satisfied that circumstances not reasonably within the control of a corporation justify an extension of the period fixed by paragraph (a) of subsection (3) within which an application by the corporation shall be made, he may extend the period, either before or after the expiration thereof. Extension of time.

CALCULATION OF GRANT.

- 4. (1) A grant authorized by the Minister to be paid to an applicant, other than an applicant referred to in Amount of grant.

4 Chap. **S2.** *Industrial Research and Development.* 14-15-16 ELIZ. II.

subsection (2), shall be an amount equal to 25% of the aggregate of

- (a) the capital expenditures by the applicant in its grant period on scientific research and development related to the business and directly undertaken by or on behalf of the applicant; and
- (b) the amount by which the eligible current expenditures by the applicant in its grant period exceeds the average of eligible current expenditures by the applicant in its base period.

Associated
corporations.

(2) Where an applicant was associated with one or more other corporations in the applicant's grant period, a grant authorized by the Minister to be paid to the applicant shall be an amount equal to 25% of the aggregate of

- (a) the capital expenditures by the applicant in its grant period on scientific research and development related to the business and directly undertaken by or on behalf of the applicant; and
- (b) where
 - (i) the eligible current expenditures by the applicant in its grant period exceed the average of eligible current expenditures by the applicant in its base period (the amount of which excess is hereinafter referred to as "the applicant's increase"), and
 - (ii) the aggregate of
 - (A) the eligible current expenditures by the applicant in its grant period, and
 - (B) the total of the eligible current expenditures by each of the corporations associated with the applicant in its grant period, in the fiscal periods of the associated corporations ending in the grant period,
 exceeds the aggregate of
 - (C) the average of eligible current expenditures by the applicant in its base period, and
 - (D) the total of the averages of eligible current expenditures by each of the corporations whose eligible current expenditures are required to be included for the purposes of clause (B), in the base periods of those corporations

(the amount of which excess is hereinafter referred to as "the association's increase"), that proportion of the association's increase that the applicant's increase is of the aggregate of

- (iii) the applicant's increase, and
- (iv) where the eligible current expenditures by any corporation associated with the applicant in its grant period, in the fiscal period of the associated corporation ending in the grant period, exceed the average of eligible current expenditures by the associated corporation in its base period, the total of the amounts of such excesses for each of the corporations associated with the applicant in its grant period.

(3) Notwithstanding subsection (1) or (2), where an applicant was associated in any fiscal period included in its base period with a corporation

Where associated in base period only.

- (a) with which the applicant was not associated in its grant period, and
- (b) in respect of which all or substantially all the business that was carried on by that corporation in its last fiscal period before such association ended was acquired in any manner whatever by
 - (i) the applicant,
 - (ii) one or more corporations associated with the applicant in the applicant's grant period, or
 - (iii) by the applicant and one or more corporations described in subparagraph (ii),

an amount equal to one-fifth of the eligible current expenditures by that corporation in any of its fiscal periods ending in any such fiscal period of the applicant in which the applicant and that corporation were associated shall be added,

- (c) for the purposes of paragraph (b) of subsection (1), to the average of eligible current expenditures by the applicant in its base period, or
 - (d) for the purposes of subparagraph (ii) of paragraph (b) of subsection (2), to the aggregate of the amounts determined pursuant to clauses (C) and (D) of that subparagraph,
- whichever is applicable.

- (4) No capital expenditure in respect of
 - (a) land upon which movable or immovable property is or may be situated,

Expenditures not included.

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- (b) any property that is acquired by the applicant in its grant period and that
 - (i) is sold or otherwise disposed of by the applicant,
 - (ii) ceases to be used by the applicant for the purposes of scientific research and development, or
 - (iii) is lost or destroyed in the grant period, or
 - (c) the replacement or repair of lost, damaged or destroyed property, other than property to which paragraph (b) applies, where an amount has been paid or is payable under a policy of insurance in respect of the loss, damage or destruction and no amount has become payable by the applicant to Her Majesty by virtue of section 10 in respect thereof,
- shall be included for the purposes of this section, and no expenditure
- (d) that in the opinion of the Minister is not reasonable in the circumstances, or
 - (e) that is made wholly or mainly to acquire rights in or arising out of scientific research,
- shall be included for the purposes of this section or section 5.

DETERMINATION OF ELIGIBLE CURRENT EXPENDITURES.

Eligible
current
expenditures.

- 5.** (1) The eligible current expenditures by a corporation in a fiscal period of the corporation is an amount equal to
- (a) the aggregate of the current expenditures in Canada by the corporation in the fiscal period
 - (i) on scientific research and development related to the business and directly undertaken by or on behalf of the corporation,
 - (ii) by way of payments
 - (A) to an approved association, university, college, research institute or other similar institution,
 - (B) to a company incorporated in and resident in Canada and exempt from tax under Part I of the *Income Tax Act* by paragraph (gc) of subsection (1) of section 62 of that Act, or
 - (C) to another corporation, for scientific research and development related to the class of business of the corporation, and

- (iii) by way of repayments to Her Majesty of or on account of amounts paid to the corporation under an *Appropriation Act* and on terms and conditions approved by Treasury Board for the purpose of advancing or sustaining the technological capability of Canadian manufacturing or other industry,

minus the aggregate of

- (b) any amount paid to the corporation in the fiscal period in respect of scientific research and development, other than an amount paid as a grant under this Act;
- (c) subject to any regulation made under paragraph (e) of section 14, where property acquired by the corporation for the purposes of scientific research and development, and in respect of the acquisition of which a current expenditure was made by the corporation,
 - (i) is sold or otherwise disposed of by the corporation,
 - (ii) ceases to be used by the corporation for the purposes of scientific research and development, or
 - (iii) is lost or destroyed,
 in the fiscal period, an amount prescribed by regulation; and
- (d) subject to any regulation made under paragraph (f) of section 14, where the corporation in the fiscal period sells or otherwise disposes of goods or services in the production or performance of which property acquired by the corporation for the purposes of scientific research and development is utilized, an amount prescribed by regulation.

(2) Notwithstanding subsection (1), where, in Idem. determining the eligible current expenditures by a corporation in a fiscal period in accordance with subsection (1), the aggregate of all amounts described in paragraphs (b) to (d) of that subsection exceeds the aggregate of the current expenditures described in paragraph (a) thereof,

- (a) the eligible current expenditures by the corporation in that fiscal period shall be deemed to be zero; and
- (b) where the eligible current expenditures by the corporation in that fiscal period are required to be included for the purposes of clause (B) of subparagraph (ii) of paragraph (b) of subsection (2) of section 4, the total referred to in the said

8 Chap. 82. *Industrial Research and Development.* 14-15-16 ELIZ. II.

clause (B) shall be reduced by the amount of such excess.

Scientific research and development related to a business.

(3) References in this section to scientific research and development relating to a business or class of business include any scientific research and development that may lead to or facilitate an extension of that business or business of that class.

BASE PERIOD.

Base period.

6. (1) Subject to this section, the base period
- (a) of an applicant is the five fiscal periods of the applicant immediately preceding its grant period; and
- (b) of a corporation associated with the applicant in its grant period is the five fiscal periods of the associated corporation immediately preceding its fiscal period ending in the grant period.
- (2) Where any of the five fiscal periods
- (a) of an applicant, or
- (b) of a corporation associated with the applicant in its grant period,

Base period fiscal periods less than 365.

referred to in subsection (1) is less than 365 days, the base period of the applicant or the associated corporation, as the case may be, is the minimum number of consecutive fiscal periods thereof, immediately preceding the grant period or the fiscal period ending in the grant period, as the case may be, necessary to comprise at least 1,826 days.

Deemed to have fiscal periods.

(3) Where the applicant or a corporation associated with the applicant in its grant period has had no fiscal periods or an insufficient number of fiscal periods to constitute a base period within the meaning of subsection (1) or (2) the applicant or that corporation, as the case may be, shall be deemed to have had a number of added fiscal periods sufficient to constitute a base period within the meaning of subsection (1) or (2), but the eligible current expenditures of the applicant or that corporation, as the case may be, in any such added fiscal period shall be deemed to be zero.

DETERMINATION OF AVERAGE OF ELIGIBLE CURRENT EXPENDITURES IN BASE PERIOD.

Average of eligible current expenditures.

7. (1) Subject to this section, the average of eligible current expenditures by a corporation in its base period is an amount equal to one-fifth of the aggregate of the eligible current expenditures by the corporation in the fiscal periods of the corporation included in its base period.

(2) Where the total number of days in the base period of a corporation is greater than 1,827, the amount determined under subsection (1) shall be reduced by an amount equal to one-fifth of that proportion of the eligible current expenditures by the corporation in the earliest fiscal period of the corporation included in its base period that the number of days in its base period in excess of 1,827 is of 365.

Amount subtracted.

(3) Where an applicant's grant period or, in the case of a corporation associated with the applicant in its grant period, the fiscal period of such corporation ending in the grant period is less than 365 days, the average of eligible current expenditures, calculated in accordance with subsections (1) and (2), by the applicant or the associated corporation, as the case may be, shall be reduced by that proportion thereof that the number of days by which the grant period or the fiscal period, as the case may be, is less than 365 days is of 365 days.

Grant period or fiscal period less than 365 days.

PAYMENT OF GRANTS.

8. (1) Subject to subsection (2), an amount authorized by the Minister to be paid to an applicant as a grant shall be paid to the applicant by the Minister of Finance out of the Consolidated Revenue Fund.

Payment out of Consolidated Revenue Fund.

(2) Where an applicant, in the manner prescribed by the Minister, requests the Minister to credit towards the payment of income tax all or any part of any amount authorized to be paid to the applicant as a grant, that amount or that part thereof shall, on the requisition of the Minister and in lieu of the payment thereof to the applicant as provided under subsection (1), be paid to the Receiver General by the Minister of Finance as a payment on account of income tax that is or may become payable by the applicant under the *Income Tax Act*.

Payment on account of tax liability.

TAX PROVISIONS.

9. (1) An amount authorized to be paid to an applicant as a grant is exempt from income tax.

Grant exempt from income tax.

(2) Paragraph (h) of subsection (6) of section 20 of the *Income Tax Act* does not apply in respect of a grant authorized to be paid under this Act.

Grant does not reduce capital cost for tax purposes.

RECOVERY OF GRANT.

10. (1) Subject to subsection (2), where a grant has been authorized to be paid to a corporation in respect of a

Recovery of grant by Crown in certain circumstances.

10 Chap. 82. *Industrial Research and Development.* 14-15-16 ELIZ. II.

capital expenditure made in respect of the acquisition of property that

- (a) is sold or otherwise disposed of by the corporation,
- (b) is lost, damaged (by other than normal wear and tear) or destroyed, or
- (c) ceases to be used by the corporation for the purposes of scientific research and development within a period described in one of the following paragraphs that is applicable to that property, the amount specified in that paragraph immediately becomes payable by the corporation to Her Majesty, namely:
 - (d) within one year from the end of the fiscal period in which the property was acquired, an amount equal to 100% of the grant or grants authorized to be paid to the corporation in respect of all capital expenditures made by the corporation in respect of the acquisition of the property;
 - (e) in the case of equipment, after the termination of the year referred to in paragraph (d) but within five years from the end of the fiscal period in which it was acquired, an amount equal to
 - (i) the amount described in paragraph (d), minus
 - (ii) one-fifth of that amount for each full year or portion of a year that has elapsed since the end of the year referred to in paragraph (d); and
 - (f) in the case of property other than equipment, after the termination of the year referred to in paragraph (d) but within ten years from the end of the fiscal period in which it was acquired, an amount equal to
 - (i) the amount described in paragraph (d), minus
 - (ii) one-tenth of that amount for each full year or portion of a year that has elapsed since the end of the year referred to in paragraph (d).

Idem.

(2) Where the property described in subsection (1) is property that was lost, damaged (by other than normal wear and tear) or destroyed, no amount becomes payable to Her Majesty by virtue of subsection (1) unless an amount payable under a policy of insurance in respect of the loss, damage or destruction has not, within one year from the end of the fiscal period in which the property was lost, damaged or destroyed or such further period as the Minister may in writing allow, been expended on replacing or re-

pairing the property and, in that case, an amount determined in accordance with subsection (1) becomes payable to Her Majesty immediately upon the termination of that year or any further period allowed in writing by the Minister.

(3) Every amount

- (a) that becomes payable by a corporation by virtue of this section, or
- (b) that has been paid or credited to a corporation as or on account of a grant, and to which the corporation is not entitled,

Manner of recovery of amounts owing.

may be recovered at any time as a debt due to Her Majesty or may be retained, in whole or in part, by the Minister of Finance out of any grant subsequently authorized to be paid to the corporation.

GENERAL.

11. (1) Notwithstanding any provision of the *Income Tax Act*, the Minister of National Revenue or any person designated by him for the purpose may, upon the request of the Minister, advise the Minister

Minister of National Revenue may give advice.

- (a) whether an applicant is or was associated in its grant period or in its base period with any other corporation;
- (b) whether any particular expenditure of a corporation is a capital or current expenditure;
- (c) as to the duration of any fiscal period of a corporation; and
- (d) whether a corporation is exempt from tax under Part I of the *Income Tax Act* by section 62 or any provision of section 62 of that Act;

and may give the Minister such information as is necessary for the purposes of any regulation made under paragraph (h) of section 14.

(2) Any advice or information that may be given to the Minister pursuant to subsection (1) may be given to any officer or employee employed by Her Majesty in connection with the administration or enforcement of this Act who is designated by the Minister for the purpose.

Advice may be given to designated employee.

12. The Minister may

- (a) obtain the advice of any agency or department of the Government of Canada carrying on activities in the field of scientific research and development on whether any particular activity constitutes scientific research and development;
- (b) obtain the advice of the Department of Trade and Commerce on whether any particular

Minister may obtain and give advice.

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scientific research and development is likely to result in benefit to Canada if it is successful and

- (c) advise the Minister of National Revenue as to whether a corporation has been authorized to be paid a grant in respect of expenditures on scientific research and development in a fiscal period.

Information privileged.

13. All information with respect to a corporation obtained by an officer or employee of Her Majesty in the course of the administration of this Act is privileged, and no such officer or employee shall knowingly, except as may be necessary for the purposes of sections 11 and 12 or in respect of proceedings relating to the administration or enforcement of this Act, communicate or allow to be communicated to any person not legally entitled thereto any such information or allow any such person to inspect or have access to any application or other writing containing any such information.

REGULATIONS.

Regulations.

14. The Governor in Council may make regulations providing for any matters concerning which he deems regulations are necessary to carry out the purposes and provisions of this Act and, without limiting the generality of the foregoing, may make regulations

- (a) prescribing or defining anything that by this Act is to be prescribed or defined by regulation;
- (b) defining the expressions "capital expenditure", "current expenditure", "equipment" and "scientific research and development";
- (c) specifying information that shall be provided by a corporation for the purposes of subsection (2) of section 3;
- (d) prescribing factors that shall or shall not be taken into account by the Minister in deciding whether an expenditure was made in respect of scientific research and development that is likely to result in benefit to Canada if it is successful and the conclusions or inferences, if any, to be drawn from any particular factor;
- (e) prescribing circumstances in which no amount need be subtracted pursuant to paragraph (c) of subsection (1) of section 5 where property described in that paragraph is sold or otherwise disposed of, ceases to be used for the purposes of scientific research and development or is lost or destroyed;

- (f) prescribing circumstances in which no amount need be subtracted pursuant to paragraph (d) of subsection (1) of section 5 upon the sale or other disposition of goods or services described in that paragraph;
- (g) prescribing the amounts that shall be subtracted pursuant to paragraph (c) or (d) of subsection (1) of section 5;
- (h) prescribing, notwithstanding section 5, the circumstances and manner in which information submitted to the Minister of National Revenue for the purposes of section 72 or 72A of the *Income Tax Act* may or shall be used in determining the eligible current expenditures of a corporation;
- (i) prescribing the books and records to be kept by any corporation that has applied for or received a grant and by any corporation associated with such corporation;
- (j) providing for the examination, audit and copying of the books, records and property of any corporation that has applied for or received a grant and of any corporation associated with such corporation;
- (k) providing for the disclosure to the Minister by a corporation by which an amount has become payable to Her Majesty by virtue of section 10 of such information as may be necessary for the enforcement of that section;
- (l) specifying, either generally or in respect of a particular provision of this Act, the circumstances in which property shall be deemed to be or not to be acquired for the purposes of scientific research and development;
- (m) specifying, either generally or in respect of a particular provision of this Act, the circumstances in which a corporation shall be deemed to cease or not to cease using property for the purposes of scientific research and development; and
- (n) either generally or in respect of a particular provision of this Act, respecting the day on which any property in respect of the acquisition of which a capital or current expenditure has been made by a corporation shall be deemed to have been acquired by the corporation.

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OFFENCES.

- Offences. **15.** (1) Every person who,
- (a) in respect of an application for a grant, knowingly makes a false or misleading statement in or fails to disclose a material particular in any application or other document or wilfully furnishes any false or misleading information is guilty of
- (i) an indictable offence and liable to imprisonment for a term not exceeding two years, or
- (ii) an offence and liable on summary conviction to a fine not exceeding \$5,000;
- (b) contravenes or fails to comply with any regulation made under paragraph (i) or (j) of section 14 is guilty of an offence and liable on summary conviction to a fine not exceeding \$1,000; and
- (c) fails to comply with a regulation made under paragraph (k) of section 14 is guilty of an offence and liable on summary conviction to a fine not exceeding \$100 for each day of default and not exceeding in all \$5,000.
- Idem. (2) Every officer or employee of Her Majesty who contravenes section 13 is guilty of an offence punishable on summary conviction.
- Institution of prosecution. (3) A prosecution by way of summary conviction for an offence under subsection (1) may be instituted at any time within five years from the time when the subject matter of the complaint arose.

APPLICATION OF ACT.

- Application of Act. **16.** This Act is applicable to expenditures on scientific research and development in any fiscal period of a corporation ending in the calendar year 1966 or any subsequent calendar year.

ANNUAL REPORT.

- Annual report to Parliament. **17.** The Minister shall as soon as possible after the end of each fiscal year prepare a report on the administration of this Act during that fiscal year and shall cause such report to be laid before Parliament forthwith upon the completion thereof or, if Parliament is not then sitting, on any of the first fifteen days next thereafter that Parliament is sitting.

AMENDMENTS TO INCOME TAX ACT.

18. (1) Subsection (2) of section 72 of the *Income Tax Act* is repealed and the following substituted therefor:

“(2) The Minister may obtain the advice of the Department of Industry, the National Research Council, the Defence Research Board or any other agency or department of the Government of Canada carrying on activities in the field of scientific research as to whether any particular activity constitutes scientific research.”

Minister
may obtain
advice.

(2) Paragraph (a) of subsection (4) of section 72 of the said Act is repealed and the following substituted therefor:

“(a) “approved” means approved by the Minister after he has, if he considers it necessary, obtained the advice of the Department of Industry or the National Research Council,”

(3) Subsections (1) and (2) are applicable to the 1966 and subsequent taxation years.

19. (1) Section 72A of the said Act is amended by adding thereto, immediately after subsection (4) thereof, the following subsection:

“(4a) Notwithstanding subsection (4), where property described in subsection (4) has been disposed of by a corporation in a taxation year, the amount that the corporation is required by that subsection to include in computing its income for that year shall be reduced by one-fifth of that amount for that year and each previous taxation year of the corporation ending after its 1967 taxation year.”

Idem.

(2) Section 72A of the said Act is further amended by adding thereto the following subsection:

“(7) Where a grant has been authorized to be paid to a corporation under the *Industrial Research and Development Incentives Act* in respect of expenditures on scientific research and development (as defined for the purposes of that Act) in a taxation year, the corporation is not, and shall be deemed never to have been, entitled to make any deduction under this section in computing its income for that year.”

No deduction
under this
section.

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(3) Subsection (1) is applicable to the 1968 and subsequent taxation years and subsection (2) is applicable to the 1966 and subsequent taxation years.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1967

INDUSTRIAL RESEARCH AND DEVELOPMENT INCENTIVES ACT.

Industrial Research and Development Incentives Regulations.

P.C. 1967-1048

AT THE GOVERNMENT HOUSE AT OTTAWA.

THURSDAY, the 25th day of MAY, 1967.

PRESENT:

HIS EXCELLENCY THE GOVERNOR GENERAL IN COUNCIL.

His Excellency the Governor General in Council, on the recommendation of the Minister of Industry, pursuant to the Industrial Research and Development Incentives Act, is pleased hereby to make the annexed Regulations Respecting Incentives for Industrial Research and Development.

REGULATIONS RESPECTING INCENTIVES FOR INDUSTRIAL RESEARCH
AND DEVELOPMENT.

Short Title.

1. These Regulations may be cited as the *Industrial Research and Development Incentives Regulations*.

Interpretation.

2. (1) In these Regulations,
- (a) "Act" means the *Industrial Research and Development Incentives Act*;
 - (b) "equipment" means the following property:
 - (i) electrical, electronic, hydraulic, pneumatic and mechanical items and components and assemblies of such items, where such items, components or assemblies are used for the manufacture of goods or in the performance of services or to carry out experimental tests,
 - (ii) instrumentation,
 - (iii) machinery,
 - (iv) office furnishings and machines,
 - (v) test equipment and other equipment used for testing purposes, and
 - (vi) tools and tooling,
 but does not include
 - (vii) buildings and component parts thereof such as electric wiring, plumbing, sprinkler systems, air conditioning equipment, heating equipment, lighting fixtures, elevators and escalators,
 - (viii) materials and supplies, or
 - (ix) prototypes;
 - (c) "general purpose equipment" means equipment that is not special purpose equipment; and
 - (d) "special purpose equipment" means equipment that is of so specialized a nature that, unless substantial modifications or alterations are made, the equipment can be used only for
 - (i) the development or manufacture of goods of a particular kind,
 - (ii) the performance of a particular kind of service, or
 - (iii) the carrying out of experimental tests of a particular kind.
- (2) For the purposes of the Act,
- (a) "capital expenditure" means an expense incurred in respect of
 - (i) the acquisition of a building or a portion of a building,
 - (ii) the acquisition of electric wiring, plumbing, sprinkler systems, air conditioning equipment, heating equipment, lighting fixtures, elevators, escalators and other component parts for a building or a portion of a building,

- (iii) the renovation or alteration of an existing building or portion of an existing building, or
- (iv) the acquisition of general purpose equipment, but does not include any expense described in subparagraphs (i) to (viii) of paragraph (b) or any expense incurred in respect of
- (v) the acquisition of any building, portion of a building or equipment that has been used for any purpose whatsoever before such acquisition,
- (vi) the acquisition of property that does not ordinarily have a useful life greater than one year and a value greater than one hundred dollars,
- (vii) the acquisition of a prototype, or
- (viii) the maintenance or repair of buildings or other property;
- (b) "current expenditure" means an expense incurred, but does not include
 - (i) any expense incurred in respect of
 - (A) interest on any obligation or dividends on invested capital,
 - (B) entertainment,
 - (C) dues or fees in respect of membership in other than scientific or technical societies or organizations,
 - (D) excess facilities,
 - (E) discounting or financing bonds or bond issues,
 - (F) premiums for insurance on the lives of officers or executives,
 - (G) legal services of any kind,
 - (H) accounting or other professional services in connection with corporate reorganization, security issues or capital stock issues,
 - (I) patent, trade mark, copyright, industrial design or other like matters, except an expense incurred in instructing, or in preparing or collecting information and material for the purpose of instructing, a person with respect to the preparation or prosecution of an application for a patent,
 - (J) the collection of amounts owing,
 - (K) advertising or selling, or
 - (L) federal or provincial income or excess profit taxes or surtaxes,
 - (ii) a depreciation allowance on
 - (A) a building or item of equipment paid for by or with money provided by the Crown,
 - (B) property in respect of which a deduction in computing income for the purposes of the *Income Tax Act* has been made as permitted by section 72 of that Act, or
 - (C) where a grant has been authorized to be paid or a previous application is pending in respect of an expense incurred in the acquisition, renovation or alteration of property, such property,

- (iii) charitable donations,
- (iv) fines or penalties of any kind,
- (v) the amortization of unrealized appreciation of asset values,
- (vi) reserves for repairs, contingencies, compensation insurance or guaranteed work,
- (vii) bad debts or losses on investments,
- (viii) where a grant has been authorized to be paid or a previous application is pending in respect of a depreciation allowance on property, any expense incurred with respect to the acquisition, renovation or alteration of the property; or
- (ix) any expense that is not of a current nature, except an expense incurred in respect of special purpose equipment;
- (c) "equipment" means general purpose equipment as defined in paragraph (c) of subsection (1);
- (d) "scientific research and development" means systematic investigation or search carried out in a field of science or technology by means of experiment or analysis, that is to say,
 - (i) basic research, namely, work undertaken for the advancement of scientific knowledge without a specific practical application in view,
 - (ii) applied research, namely, work undertaken for the advancement of scientific knowledge with a specific practical application in view, and
 - (iii) development, namely, use of the results of basic or applied research for the purpose of creating new, or improving existing, materials, devices, products or processes,

and, where such activities are undertaken directly in support of scientific research and development, includes activities with respect to engineering or design, operations research, mathematical analysis or computer programming and psychological research, but does not include activities with respect to

 - (iv) market research or sales promotion,
 - (v) quality control or routine testing of materials, devices or products,
 - (vi) research in the social sciences or the humanities,
 - (vii) prospecting, exploring or drilling for or producing minerals, petroleum or natural gas,
 - (viii) the commercial production of a new or improved material, device or product or the commercial use of a new or improved process,
 - (ix) style changes, or
 - (x) routine data collection.

Information.

3. For the purposes of subsection (2) of section 3 of the Act, a corporation that applies for a grant shall provide the following information to the Minister:

- (a) a description, satisfactory to the Minister, of the scientific research and development directly carried on by or on behalf of the corporation in Canada in the grant period;
- (b) a description, satisfactory to the Minister, of the scientific research and development facilities owned by the corporation in the grant period and used by the corporation in the grant period for the purposes of scientific research and development;
- (c) a description, satisfactory to the Minister, of the business of the corporation in the grant period; and
- (d) the countries in which the corporation is not free to exploit the results of the scientific research and development referred to in paragraph (a).

Determination of Benefit to Canada.

4. (1) A corporation that applies for a grant shall certify, with respect to any scientific research and development referred to in paragraph (a) of section 3 that was financed in whole or in part by the corporation, that

- (a) it carried on all of such scientific research and development for the purpose of strengthening the business of the corporation or facilitating an extension of such business,
- (b) it is free to exploit in Canada the results of all of such scientific research and development, and
- (c) the corporation is free to exploit the results of all of such scientific research and development in all export markets other than the countries referred to in paragraph (d) of section 3,

and shall undertake to exploit the results of such scientific research and development in Canada unless, according to sound business judgment, it would be uneconomic to do so.

(2) Where the corporation has complied with subsection (1) and the Minister is satisfied that

- (a) all of the scientific research and development referred to in subsection (1) was carried on for the purpose of strengthening the business of the corporation or facilitating an extension of such business,
- (b) the corporation is free to exploit the results of all of such scientific research and development in Canada, and
- (c) the corporation is free to exploit the results of all of such scientific research and development in all export markets,

he shall conclude that such scientific research and development is likely to result in benefit to Canada if it is successful.

(3) For the purposes of this section,

- (a) a corporation is not free to exploit the results of scientific research and development in a country if
 - (i) the policy of the corporation precludes it from exploiting such results in the country, or

- (ii) the corporation is party to an agreement, arrangement or undertaking (whether actual or tacit and whether enforceable by law or not) that precludes it from exploiting such results in the country; and
- (b) "export market" means any country to which goods of any kind are ordinarily exported from Canada.
- (4) In this section, "to exploit the results of scientific research and development" in Canada or another country means
 - (a) where a new or improved material, device or product results from the scientific research and development, to manufacture the material, device or product in Canada and to sell it in Canada or the other country, as the case may be; and
 - (b) where a new or improved process results from the scientific research and development, to use the process in Canada and to sell in Canada or the other country, as the case may be, goods or services attributable to the use of the process.

Amounts to be Subtracted in Determining Eligible Current Expenditures.

5. (1) For the purposes of paragraph (c) of subsection (1) of section 5 of the Act, where property acquired by a corporation for the purposes of scientific research and development, and in respect of the acquisition of which a current expenditure was made by the corporation

- (a) is sold or otherwise disposed of by the corporation in the fiscal period, an amount equal to the greater of
 - (i) the aggregate of all amounts paid or payable to or for the benefit of the corporation in respect of such sale or other disposition, or
 - (ii) the amount that, in the opinion of the Minister, was the fair market value of such property when it was sold or otherwise disposed of;
 - (b) ceases to be used by the corporation in the fiscal period for the purposes of scientific research and development, an amount equal to the amount that, in the opinion of the Minister, was the fair market value of the property when the corporation ceased to use it for such purposes; and
 - (c) is lost or destroyed in the fiscal period, an amount equal to the amount that, in the opinion of the Minister, was the fair market value of the property when it was lost or destroyed;
- shall be subtracted pursuant to that paragraph.

(2) For the purposes of paragraph (d) of subsection (1) of section 5 of the Act, where a corporation in the fiscal period sells or otherwise disposes of goods or services in the production or performance of which property acquired by the corporation for the purposes of scientific research and development is utilized, the amount that shall be subtracted pursuant to that paragraph is an amount equal to

- (a) the aggregate of all amounts paid or payable to or for the benefit of the corporation in respect of the sale or other disposition of such goods or services; or

- (b) the amount that, in the opinion of the Minister, was the fair market value of such goods or services at the time of their sale or other disposition;

whichever is the greater.

- (3) Notwithstanding subsection (1), where property described in that subsection is lost or destroyed, no amount need be subtracted pursuant to paragraph (c) of subsection (1) of section 5 of the Act if no amount has been paid or is payable to or for the benefit of the corporation under a policy of insurance in respect of such loss or destruction.

Calculation of Expenditures in the Base Period
(See paragraph (h) of section 14 of the Act).

6. (1) Notwithstanding section 5 of the Act, where in computing its income for the purposes of the *Income Tax Act* for a fiscal period included in its base period a corporation has deducted an amount as permitted by section 72A of that Act, the eligible current expenditures by the corporation in such fiscal period is an amount equal to the aggregate of all expenditures of a current nature made in Canada by the corporation in the fiscal period, as described in subparagraphs (i) to (v) of paragraph (a) of subsection (1) of section 72 of that Act, minus the aggregate of all amounts paid to the corporation in the fiscal period in respect of scientific research.

(2) Notwithstanding subsection (1), where, in determining the eligible current expenditures by a corporation in a fiscal period in accordance with that subsection, the aggregate of all amounts paid to the corporation in the fiscal period in respect of scientific research exceeds the aggregate of all expenditures of a current nature, as described in subparagraphs (i) to (v) of paragraph (a) of subsection (1) of section 72 of the *Income Tax Act*, made in Canada by the corporation in the fiscal period,

- (a) the eligible current expenditures by the corporation in that fiscal period shall be deemed to be zero; and
- (b) where the eligible current expenditures by the corporation in that fiscal period are required to be included for the purposes of clause (B) of subparagraph (ii) of paragraph (b) of subsection (2) of section 4 of the Act, the total referred to in the said clause (B) shall be reduced by the amount of such excess.

(3) Where the eligible current expenditures by a corporation in a fiscal period are required to be determined in accordance with subsection (1), only information submitted to the Minister of National Revenue for the purposes of section 72 or 72A of the *Income Tax Act* shall be used in making such determination.

(4) Notwithstanding subsection (3), where the Minister is of the opinion that it is not practicable to determine (in accordance with subsection (1)) the eligible current expenditures by a corporation in a fiscal period from information submitted to the Minister of National Revenue for the purposes of section 72 or 72A of the *Income Tax Act*, such additional information as the Minister of Industry may agree to may be used in making such determination for the fiscal period.

(5) In this section, the expressions "expenditures of a current nature" and "scientific research", in respect of a fiscal period of a corporation that

has (in computing its income for that fiscal period for the purposes of the *Income Tax Act*) deducted an amount as permitted by section 72A of that Act, have the same meaning as those expressions had for the purpose of determining such amount.

Acquisition of Property.

7. Property in respect of the acquisition of which a capital or current expenditure has been made by a corporation shall be deemed to have been acquired by the corporation on the day on which

- (a) the corporation acquired title to the property; or
- (b) the property came into the possession of the corporation;

whichever is the earlier.

Cessation of Use of Property for Scientific Research and Development.

8. (1) Where property has been acquired by a corporation for the purposes of scientific research and development, the corporation shall be deemed to cease using the property for such purposes in a fiscal period if

- (a) the property is used in the fiscal period (other than incidentally) in respect of anything other than the prosecution of scientific research and development;
- (b) the day to day use of the property in the fiscal period is not primarily under the direction of personnel ordinarily engaged in the prosecution of scientific research and development; or
- (c) the corporation notifies the Minister that it ceased to use or intends to cease using the property for such purposes in the fiscal period.

(2) A corporation shall not be deemed to cease using property for the purposes of scientific research and development merely because the corporation abandons the property or temporarily or permanently ceases to use it for any purpose.

Books and Records.

9. (1) Every corporation that applies for a grant shall keep at its place of business or residence in Canada records and books of accounts in such form and containing such information as will enable

- (a) the capital expenditures by the corporation in its grant period on scientific research and development;
- (b) the property in respect of the acquisition of which a capital expenditure on scientific research and development was made by the corporation in the grant period;
- (c) the eligible current expenditures by the corporation in its grant period; and
- (d) the average of eligible current expenditures by the corporation in its base period;

to be determined or ascertained.

- (2) Every corporation that
 - (a) is associated with an applicant in the applicant's grant period; and
 - (b) made expenditures on scientific research and development in any fiscal period included in its base period or in its fiscal period ending in the applicant's grant period

shall keep at its place of business or residence in Canada records and books of account in such form and containing such information as will enable

- (c) the eligible current expenditures by the corporation in its fiscal period ending in the applicant's grant period; and
- (d) the average of eligible current expenditures by the corporation in its base period;

to be determined.

(3) A corporation that is required by subsection (1) or (2) to keep records and books of account shall retain every such record or book of account and every account or voucher necessary to verify the information in any such record or book of account until

- (a) written permission for their disposal is obtained from the Minister; or
- (b) the expiration of seven years from the end of the fiscal period of the corporation to which the record, book of account, account or voucher relates.

Access to Premises.

10. Any person authorized in writing by the Minister to do so may, at any reasonable time, enter any premises of any corporation that is required by section 9 to keep records and books of account and

- (a) audit, examine or copy the records and books and any account, voucher or other document that relates or may relate to the information that is or should be in the books or records or to the amount of a grant; and
- (b) examine any property used or acquired or alleged to have been used or acquired for the purposes of scientific research and development.

Requirement to Disclose.

11. (1) Subject to subsection (2), where a corporation has been authorized to be paid a grant in respect of a capital expenditure made in respect of the acquisition of property, the corporation shall, with respect to each fiscal period of the corporation following its fiscal period in which the capital expenditure was made and within three months after the expiration of the time permitted by section 3 of the Act for the making by the corporation of an application in respect of such following fiscal period, notify the Minister in writing whether such property

- (a) was sold or otherwise disposed of by the corporation;
- (b) was lost, damaged (by other than normal wear and tear) or destroyed; or

(c) ceased to be used by the corporation for the purposes of scientific research and development,
in such following fiscal period.

(2) Where a corporation referred to in subsection (1) makes an application

(a) in respect of a following fiscal period referred to in that subsection;
and

(b) within the time permitted by section 3 of the Act for making such application;

subsection (1) does not apply to the corporation in respect of that following fiscal period if the application contains the information that the corporation would, but for this subsection, be required to provide to the Minister by written notification pursuant to subsection (1).

