

## Federal Budget 2008 - Changes to the Research and Development Tax Credit

One of the biggest advantages of owning a Canadian company that specializes in furthering knowledge in your field is that you probably qualify for the scientific research and experimental development tax incentive program. Obviously, any country stands to gain if a specific invention, breakthrough, or improvement is developed there; not only will it gain face internationally, but the process will probably pay dividends in terms of attracting like minded individuals and the further development of business. It is therefore in the best interests of the country to encourage this type of development among their businesses.

The Canadian federal government in the 1980s first acknowledged this fact, and today it is the country's largest government program in support of industrial research and development. Every year the program receives over 11,000 claims totalling around 2 billion dollars.

Part of the appeal of the program is that it provides almost a double coverage against taxes for small and start up sized companies. Expenditures incurred when companies engage in research and development are already deducted against company revenue, but under the research and development tax credit program the amount of income taxes payable are actually reduced depending on the research conducted. This may take the form of cash returns, credits, or both.

The federal budget introduced by the Conservative government in 2008 continues to demonstrate Canada's ongoing commitment to the developments of research and technology in the area of business. Under the budget, the scientific research and experimental development tax incentive program was actually improved in several ways. The first was through an increase in the amounts that can be claimed by a business that has engaged in research and development. The federal budget also eased the financial and organizational operations of small and medium sized businesses that engage in development and research by reducing the record keeping requirements both for automobile expenses and taxable benefits.

Specifically, the changes made to the program include:

A 35% tax credit on the first \$2 million of qualified expenditures in the area of R&D for small Canadian controlled private corporations

An expenditure limit increase from \$2 million to \$3 million

These changes, along with a few more, went into effect for tax years ending in February of 2008 and after. If you own a business that engages in R&D, it will definitely be to your benefit to understand the ways in which the program can reduce your tax burden.

### About the Author

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