

SR&ED

Preparing your SR&ED Claim: Why MSN is Better. Case Studies

P5 - VERSION 1.0 | REVISED: FEB 06, 2014

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Case Study #1

Reducing the Risk of a CRA Audit

A large automotive company with several plants had been claiming SR&ED for over a decade. Historically, the engineering staff at each plant prepared the technical reports, and the financial people prepared the costing. Unfortunately, every year for the last five years, the company received a CRA science audit, financial audit or both. Recently, the audits had become more difficult, taking longer, and resulting in more significant claim reductions.

MSN started working with them in 2009 and we quickly realized they were over-claiming in some areas and under claiming in others. There was a lack of understanding of the fine points in the eligibility criteria. As a result, the technical people were describing activities that didn't qualify. Also, there was a disconnect between the financial staff who tabulated the costs for the projects written by the engineers. As a result, costs were being claimed that didn't qualify. Although the company's internal staff was puzzled and frustrated, to CRA the problems were obvious, which resulted in yearly audits.

MSN worked with two of their locations to train their technical and financial SR&ED team, and helped them tighten up the technical reports and costing to ensure only qualifying work was claimed. We also helped them improve their SR&ED activity tracking system. Historically, they only claimed product development work, but during the MSN review process, we uncovered an extra 25% of unclaimed "process development" work. Recently, CRA audited and approved the plants that we worked with, and we have a plan in place to start helping the other plants.

Lessons Learned

MSN has senior consultants that understand your technology and can quickly capture the eligible work and costs to ensure you claim every dollar deserved while avoiding unnecessary CRA audits.

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Case Study #2 Bigger Isn't Always Better

MSN had been helping a mid-sized automation/custom equipment manufacturer prepare their SR&ED claim since 1999. As the company grew over the years, they were approached by one of the National Accounting firms. In 2007 the company decided to move their accounting and SR&ED business to this National firm. MSN had successfully prepared large SR&ED claims for the last eight years for our client, with only 1 audit and without any adjustments.

The National Accounting firm prepared their 2007 & 2008 SR&ED claims, which were about 35% larger in size than the MSN historic claims. Unfortunately, CRA performed a science and financial review of both claims, and both were reduced by 50%-75%. The audits were long, and time consuming. The National Accounting firm wasn't very helpful during the audits, and was unable to preserve much of their claims. They encouraged the client to pursue Tax Court, along with a Notice of Objection.

The client has now returned to MSN. We prepared their 2009 claim and it was accepted as filed without audit.

Lessons Learned

MSN is a boutique consulting firm specializing in SR&ED. At the end of our claim preparation process we do a "Peer Review" of your claim to ensure the claim size makes sense relative to the size of the company, and relative to the work performed. If your claim is too large, or if the costing isn't "in sync" with the technical work described, it creates Red Flags for CRA. Since SR&ED is our craft, we know how to prepare high quality SR&ED claims.

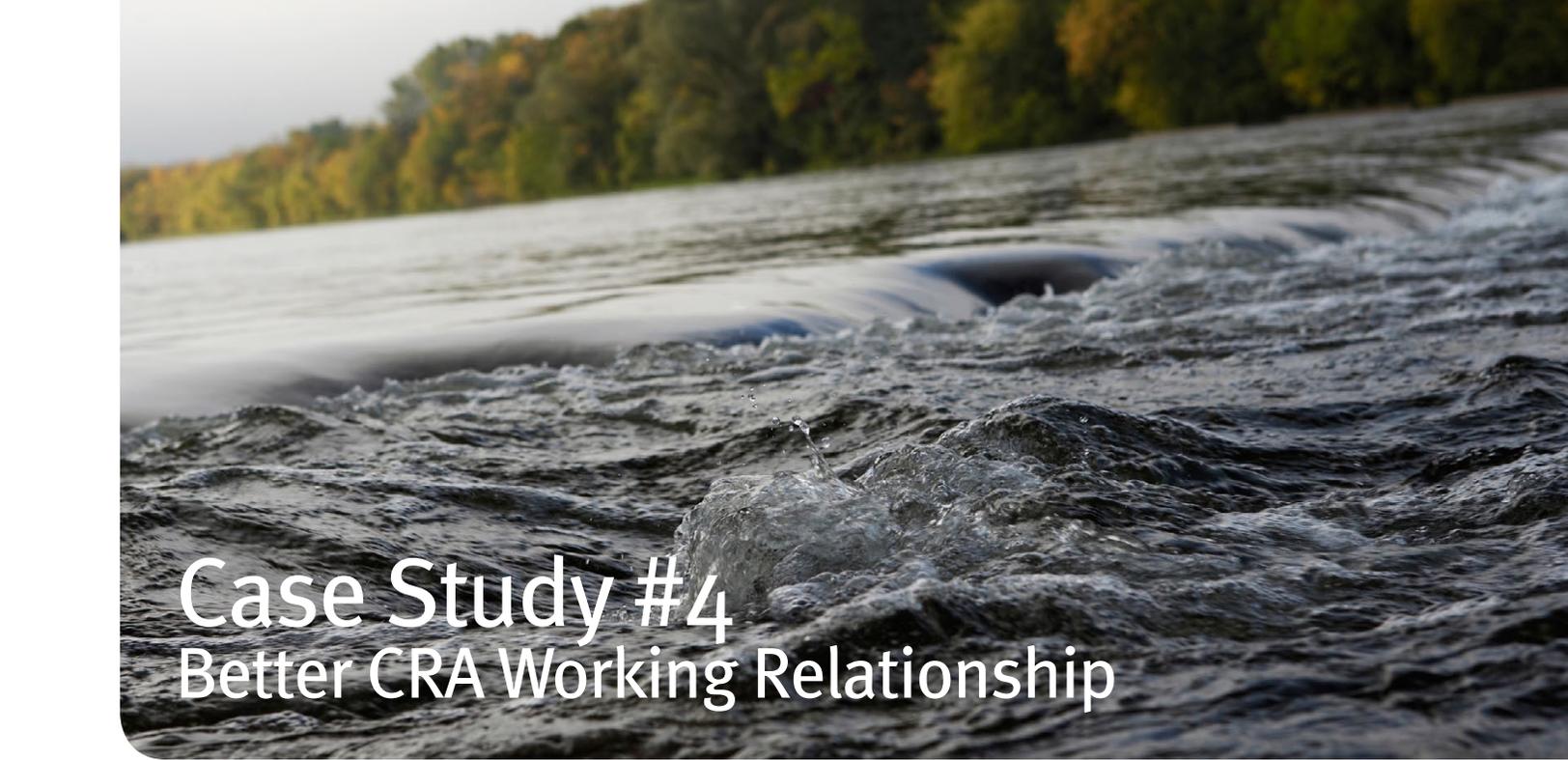
A person wearing a white suit jacket and a white shirt, holding a pair of black-rimmed glasses. The person's hands are visible, and they are looking down at the glasses.

Case Study #3 Opportunity Found

MSN was introduced to a manufacturer that historically prepared their own claims related to developing and improving their products. After a review of their operations and projects, we were able to find a \$500K software development SR&ED project. They were unaware of the software development eligibility criteria and didn't think that software was going to qualify, since they were so focused on their mechanical engineering, product development activities.

Lessons Learned

Most companies who prepare their own claims focus on product development for their SR&ED claim. The two most commonly missed areas for SR&ED include software development and process development. If you have software developers on staff, or if you have technical people improving your shop floor processes, you may have some additional qualifying SR&ED work.



Case Study #4 Better CRA Working Relationship

In 2008, MSN was approached by a multi-billion dollar company with an SR&ED problem. They filed their first SR&ED claims with a small, independent SR&ED consulting firm in 2005 & 2006. Unfortunately, the claims went to audit and the consulting firm's approach was to fight with CRA, their auditors and their audit managers. The claim had been in audit for over three years. The client was told by the consulting firm that the CRA auditors and audit managers were incompetent, and they blamed the client for not keeping better records of the SR&ED work performed. They were encouraging the Client to go to Tax Court because they were being unfairly treated. Since the Client was new to the SR&ED program, they didn't know what to believe.

After MSN reviewed the claim, it was clear that the technical report was muddled and the costing included many items that didn't meet the criteria. As a result, we started working with the client, CRA and the other consulting firm to help CRA understand the portions of work and costing that did qualify. The relationship that the client has with CRA is now turning around, and we are on track to resolve the previous claims and get the client back on the road to SR&ED compliance.

Lessons Learned

Be wary when your consultant informs you that CRA officials are incompetent, or encourages aggressive action against CRA. Most of the time there is a legitimate problem with the claim that needs to be fixed. Even if you've had successful claims in the past, it doesn't mean your work will still qualify. CRA has tightened up their eligibility rules and many consulting firms are still filing under the old eligibility rules (and having audit problems). MSN can help you navigate the SR&ED program, so you achieve every dollar deserved, without spending unnecessary time in audit.

Want more information?

For more information about SR&ED or any of our other government programs contact us today.

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The logo for the Management Support Network (MSN), consisting of the lowercase letters 'msn' in a white, sans-serif font on a black square background.

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A graphic featuring a close-up of vibrant red autumn leaves. The text 'government program experts' is written in a white, italicized, sans-serif font across the leaves.

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