

Following the rules counts when it comes to obtaining government funding

Elliot Schiller

Many in the business world think that the rules are just guidelines with respect to how to apply for funding from a government body. That couldn't be further from the truth.

In the movie *My Cousin Vinny*, the judge, played by the late Fred Gwynne, informs the lawyer, played by Joe Pesci, that in his court, lawyers must wear a shirt, tie and suit jacket. When Pesci shows up the next day wearing a leather jacket and shirt, Gwynne reprimands him, to which Pesci replies, "You were serious about that?" Yes, they are serious about that, not just in the movies, but also at Canada Revenue Agency (CRA). In the movie, Pesci spends the night in jail for contempt. In the business world, not following the rules could result in missing out on hundreds of thousands of dollars to help fund your business.

I was reminded of that point a few months ago when my firm was approached by a major manufacturer that had its Scientific Research & Experimental Development (SR&ED) claim turned down for lack of documentation. The rules are very clear in this regard, and are well spelled out on the Notice of Assessment (NOA) sent by CRA. With the denied claim, the manufacturer has thirty days in which to file a Notice of Objection, stating why the NOA is wrong. The manufacturer had been previously advised to ignore the NOA procedure and go straight to the appeal process. Bad advice. Luckily, this manufacturer was also advised to hire my firm to represent them at appeal.

We met with the manufacturer and explained that the appeals court does not look favourably on claimants who do not follow the rules. The client actually had excellent documentation and was anxious for us to show it at the Appeal. Had the client filed a Notice of Objection, with the documentation, it might never have had to get that far. Luckily, we were able to straighten the situation out without going to Appeal, and within four months of the manufacturer contacting us, we were able to obtain the correct funding.

There are two ways to approach CRA, congenially or confrontationally. In our experience, confrontation is the wrong way. CRA wants to provide the manufacturing industry with SR&ED credits. That's what the credits are there for: to incentivize innovations in the manufacturing sector. However, the manufacturer is obliged to provide CRA with the information required in order to confirm that the manufacturer is in fact eligible for the incentive. In other words, the manufacturer must follow the rules.

Specifically, the manufacturer needs to satisfy CRA that its innovation has met the five pillars of eligibility:

1. There was a technological uncertainty that could not be removed by standard practice.



2. The work involved formulating hypotheses specifically aimed at reducing or eliminating that uncertainty.
3. The adopted procedure was consistent with the total discipline of formulating, testing and modifying the hypotheses.
4. The process resulted in a technological achievement.
5. A detailed record of the hypotheses tested and the results were kept as the work progressed.

Isn't this exactly how you conduct your innovation? You identify a problem that stops you from being able to satisfy your customers' requirements. You come up with an idea (the hypothesis) as to how to resolve the problem. You test it. You learn that the idea was either right, wrong, or with a bit of modification, might just work. You try again. You learn more from your trials. Eventually, you find a way to either solve the problem, modify the customers' requirements, or inform the customer that it cannot be done in your plant, with your equipment, and your technology.

All eventualities are SR&ED tax credit eligible – even failure is eligible!

All CRA is asking of you is to confirm that you have kept evidence to support your work, and for that, you get a tax credit, and/or a refund of at least 20% of your costs. And depending on the type of company that you are, and the province that you did the work in, you can even get more than double that amount! That sure doesn't seem like a difficult rule to follow to get back up to 40% of your costs of innovation.

Elliot Schiller is a Director at Toronto's Teeger Schiller Inc., a company that specializes in obtaining government funding. His clients receive over \$5 million annually to support their ongoing business innovation. E-mail eschiller@teegerschiller.com, visit www.FundingHelp.ca or phone 1-888-816-0222 Ext. 102.



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David Teeger

Director

David Teeger C.A., C.A. (S.A.) graduated as a Chartered Accountant in South Africa, and upon arrival in Canada he obtained his Canadian C.A. designation and joined Richter & Associates, a management consulting firm, where he concentrated his practice on various business sectors including household goods, fashion, automotive parts, public associations, and retail chains. He performed many roles in his 15 years at Richter, including managing the professional services organization in North America and all business operations throughout Europe.

David's professional capabilities include computer audits, feasibility studies, system analyses and assistance in the selection, negotiation and implementation of computerized solutions.

As a founding partner of Teeger Schiller Inc., he has focused his practice on consulting to management. His team of professionals has helped businesses select and successfully install a variety of ERP business solutions and add-on systems including business intelligence solutions to give new life to existing computer systems. David's clients not only rely on him to successfully manage the implementation of their new systems, but to manage the change that occurs in their organizations as a result of the use of these new tools.



Elliot Schiller

Director

Elliot Schiller, Ph.D., C.M.C. began his career as a Chemical Engineer working for Grumman Aircraft, in Long Island, New York. He obtained his Ph.D. at the University of Pittsburgh with funding from the U.S. Atomic Energy Commission, and, after being awarded a Presidential Fellowship, he went on to perform research and development activities at Brookhaven National Laboratory.

Since coming to Canada, he has primarily assisted consumer products and retail organizations in a variety of strategic management initiatives, traveling around the globe on behalf of his clients. In 1987, Elliot joined Richter & Associates, and it is here that he first met David Teeger.

As a founding partner of Teeger Schiller Inc., he has focused the SR&ED / Grant Division on obtaining grants and tax incentives for over 100 companies in the small to medium sized business sector. His team has provided services to the discrete / processing manufacturing, material development, textiles, apparel, automotive and computer sciences sectors. Annually, Teeger Schiller Inc. secures more than \$5 million in government funding to assist its clients in having their business initiatives supported by government funding.



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