



**SR&ED Tax Incentive Program
Canada Revenue Agency (CRA) 2005 Claimant
Satisfaction Survey**

**Analysis of the CRA's Report on the Results of their
Survey**

**Scientific Research and Experimental Development (SR&ED) Tax Incentive Program
Canada Revenue Agency (CRA) 2005 Claimant Satisfaction Survey
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BACKGROUND

The Canada Revenue Agency (CRA) commissioned an on-line survey of claimants and claimant representatives to establish their awareness and use of the SR&ED tax incentive program as well as their degree of satisfaction with the administration of the program. The survey was conducted between September 6 and October 31, 2005.

The CRA issued a report on the results of their 2005 claimant satisfaction survey in May 2006.¹

The joint Department of Finance Canada-Canada Revenue Agency SR&ED consultation paper, October 2007, sums up the results of this CRA survey as follows:²

The survey results confirm what the SR&ED program hears from its claimant population, which is that it is doing well overall and more specifically in terms of:

- claim outcome;
- consistency;
- program services;
- claimant interaction with staff; and
- program effectiveness.

On the other hand, claimants suggested that the program needs to:

- strengthen the timeliness of reviewing claims; and
- clarify and harmonize the forms and publications.

The joint Finance-CRA SR&ED consultation paper goes on to describe the actions that the CRA is currently taking to address the two areas where they say that claimants suggested there was a need for improvement: the timeliness of reviews, and the clarity and harmony of forms and publications.

In contrast, the CATAAlliance (CATA) has been hearing extensive and concerning commentary on the administration of the SR&ED program. Specifically, in the summer of 2006, CATA conducted on-line consultations, including face-to-face round table discussions, primarily focused on the potential for improvements and refinements to SR&ED legislation. In the process of commenting on potential legislative changes, participants raised many administrative issues as

¹ *Scientific Research and Experimental Development Tax Incentive Program Claimant Satisfaction Study, Final Report, May 10, 2006.* The report is published on the CRA's web site at <http://www.cra-arc.gc.ca/taxcredit/sred/priorities-e.html>.

² *Tax Incentives for Scientific Research and Experimental Development, Consultation Paper, October 2007,* available on the Department of Finance Canada's web site at <http://www.fin.gc.ca/news07/07-078e.html>. See page 6, item d) "Administrative context".



well. (For a copy of the report on the 2006 consultations, go to the CATA web site:
http://www.cata.ca/files/pdf/resource_centres/sred/sred2006consultrpt.pdf

As a result of the concerns raised by these comments, CATA conducted on-line consultations in the spring and summer of 2007 that focused specifically on issues with the administration of the program. In all, over 200 individuals provided input.³ Discussions at meetings of CATA's board have also highlighted the importance of obtaining improvements on administrative issues. In light of this commentary on the administrative aspects of the program, CATA reviewed and re-analyzed the CRA's report on the results of the CRA claimant satisfaction survey of 2005. Based on this review and analysis, it was found that the CRA report actually reveals a number of administrative issues in addition to the issues of timeliness of reviews, and the clarity and harmony of forms and publications that are highlighted in the joint Finance-CRA SR&ED consultation paper.

Re-analysis of the CRA's Report on the Results of their Survey

In summary, a close look at CRA's report on the results of their survey reveals that:

- respondents for **higher revenue claimants were significantly less satisfied** with the program than were respondents for lower revenue claimants; and
- respondents indicated that **Research and Technology Advisors (science reviewers) were often not familiar with the industry sectors** associated with claims. In contrast, respondents rated Financial Reviewers relatively high for their familiarity with financial issues.

The CRA's claimant satisfaction survey mostly focused on the satisfaction of claimants and their representatives with the **administrative policy objectives** of the SR&ED tax incentive program. However, a few of the CRA survey questions did relate to the **tax policy objectives** for the program.

³ All members of CATA were invited to participate in the consultations. **Approximately 81%** of respondents replied on behalf of corporations with annual revenue of **\$50 million or less**. Of this 81% of respondents, approximately 24% related to corporations with annual revenue of less than \$500,000 and 35% related to corporations with annual revenue between \$1 million and \$10 million. **Approximately 11%** of respondents replied on behalf of corporations with **more than \$50 million** in annual revenue.

Approximately 55% of responses related to **private** corporations and **approximately 30%** of the responses related to Canadian-controlled private corporations (**CCPCs**). **Approximately 6%** of responses related to **public** corporations.

Approximately **69%** of responses related to corporations with **50 or fewer** full-time employees; approximately 19% to corporations with 51 to 500 full-time employees; and approximately **12%** to corporations with **more than 500** full-time employees.



The policy objectives underlying the SR&ED income tax incentives are: ⁴

Administrative Policy Objectives

1. *increase awareness and understanding of the availability of the SR&ED tax incentives;*
2. *promote accessibility of the SR&ED tax incentives to the targeted clientele;*
3. *ensure the validity, completeness and accuracy of claims made;*
4. *deliver a timely and cost-effective incentive; and*
5. *ensure consistency and predictability in delivering the SR&ED tax incentives.*

Tax Policy Objectives

1. *encourage SR&ED to be performed in Canada by the private sector through broadly based support;*
2. *assist small businesses to perform SR&ED;*
3. *provide incentives that are, as much as possible, of immediate benefit;*
4. *provide incentives that are as simple to understand and comply with and as certain in application as possible; and*
5. *promote SR&ED that conforms to sound business practices.*

In certain instances, CRA's report on their survey provides a breakdown of results by annual revenue level of claimant. Where a breakdown by revenue level appears, respondents for **higher revenue claimants** are always **significantly less satisfied** with the program than are respondents for lower revenue claimants.

To put this observation into perspective, it is important to note that claims from higher revenue claimants account for the major portion of the SR&ED investment tax credits (ITCs) earned each year by claimants. Statistics provided in the joint Finance-CRA SR&ED consultation paper indicate that approximately 70% of investment tax credits or around \$2.3 billion are associated with higher revenue claimants. ⁵

Overall administration of the program

Although 71% of all respondents were satisfied with the CRA's administration of the SR&ED Program, **only 51% of respondents for claimants with annual revenue over \$50 million were satisfied with the CRA's administration of the program.** (Exhibit 10, Question 35)

⁴ *The Federal System of Income Tax Incentives for Scientific Research and Experimental Development, Evaluation Report, prepared by the Department of Finance Canada and Revenue Canada, March 19, 1998.* See "Executive Summary", headings of "Key Findings Relating to Tax Policy" and "Key Findings Relating to Administrative Policy". This evaluation report is published on the Department of Finance Canada's web site at http://www.fin.gc.ca/resdev/fedsys_e.html.

⁵ For background information, see Table 3, page 17, of *Tax Incentives for Scientific Research and Experimental Development, Consultation Paper, October 2007*, available on the Department of Finance Canada's web site at <http://www.fin.gc.ca/news07/07-078e.html>.



Effectiveness of the program

Although 82% of all respondents were satisfied with the effectiveness of the program in **encouraging the claimant to conduct more R&D in Canada, only 60% of respondents for claimants with annual revenue over \$50 million were satisfied.** (Exhibit 16, Question 40)

Seventy-three percent (73%) of all respondents were satisfied with the effectiveness of the program in encouraging the claimant to stay in Canada. However, **only 48% of respondents for claimants with annual revenue over \$50 million were satisfied.** (Exhibit 16, Question 40)

Predictability and certainty of application

Predictability is about certainty for the claimant and/or claimant's representative. From the perspective of claimants and their representatives, how predictable (consistent) is the CRA's review of a claim from one year to the next for that particular claimant? Can a claimant/claimant representative rely on the CRA to apply SR&ED legislation, policies/guidelines and procedures in the same way from one year to the next? Or, are CRA's legislative, policy and procedural positions unpredictable and uncertain from year-to-year?

The satisfaction level of respondents with claim processing consistency from year-to-year was significantly lower for claimants with higher annual revenue levels:

- 79% for all respondents;
- 81% for respondents where claimant's annual revenue was < \$50 million; and **only**
- **64%** for respondents where claimant's annual revenue was > \$50 million.

(Exhibit 13, Question 34)

The CRA survey did not ask respondents about the CRA's consistency in applying SR&ED legislation, policies/guidelines and procedures **within regions or nationally.** That is, how satisfied are claimants/claimant representatives that the CRA will treat a claim in the same way as similar claims filed by other corporations, particularly competitors?

Concern and Dispute Resolution

The resolution of concerns and disputes that arise during a review of a claim and the resolution of concerns that remain at the end of a review are particularly important considerations.

Seventeen percent (17%) of all respondents had a concern with their most recently reviewed claim. The report points out that "This rate was significantly higher for respondents from companies with **revenue over \$50 million**, where **34% said they had a concern** with their most recent claim (compared to 16% for respondents from companies with revenue below \$50 million)." (Section 5.8) (Bold added for emphasis.)

A significant percentage of respondents with concerns (**43%**) **were dissatisfied** with the resolution of concerns. The main reasons given for dissatisfaction were:



- lengthy process;
- unresolved/still taking place; and
- bureaucracy/red tape.

(Exhibit 40, Question 31)

The joint Finance Canada-CRA SR&ED consultation paper states that “Science and technology, **particularly business sector** R&D, are crucial to the long-term growth and prosperity of our economy.”⁶ (Bold added for emphasis.)

But, only 65% of respondents for claimants that had received an on-site review indicated that the Research and Technology Advisor was familiar with the industry sector of the claimant **while 17%** of these respondents indicated that the Research and Technology Advisor was **not** familiar with the industry sector. (Exhibit 27, Question 17) (No breakdown of results on familiarity by size of claimant was provided in the CRA report.)

In contrast, respondents’ satisfaction with the Financial Reviewer’s familiarity with financial issues was **relatively** high. Eighty percent (**80%**) of respondents for claimants that had received an on-site review indicated that the Financial Reviewer was familiar with financial issues while only 8% of these respondents indicated that the Financial Reviewer was **not** familiar with financial issues. (Exhibit 31, Question 21) (No breakdown of results on familiarity by size of claimant was provided in the CRA report.)

⁶ *Tax Incentives for Scientific Research and Experimental Development, Consultation Paper, October 2007*, available on the Department of Finance Canada’s web site at <http://www.fin.gc.ca/news07/07-078e.html>. See a) “Background” on page 2.



SOME KEY RESULTS OF CRA SURVEY ⁷

CRA Survey Results			
Question 35: How satisfied or dissatisfied are you with the CRA's administration of the SR&ED program?			
	<u>% SATISFIED</u>		
	<u>Revenue</u>	<u>Revenue</u>	
<u>All</u>	<u><\$50 million</u>	<u>> \$50 million</u>	
71%	73%	51%	
Question 40: How effective or ineffective is the SR&ED program in:			
	<u>% WHO RATED PROGRAM AS EFFECTIVE</u>		
	<u>Revenue</u>	<u>Revenue</u>	
<u>All</u>	<u><\$50 million</u>	<u>> \$50 million</u>	
Encouraging your company/client to conduct more R&D in Canada	82%	83%	60%
Encouraging your company/client to stay in Canada	73%	74%	48%
	<u>All</u>	<u><\$10 million</u>	<u>> \$10 million</u>
Helping with your company's/client's cash flow	64%	69%	47%
Increasing your company's/client's profitability	61%	63%	50%
Question 34: To what extent do you agree or disagree that the CRA has processed your company's/client's claims consistently from year to year?			
	<u>% WHO AGREE</u>		
	<u>Revenue</u>	<u>Revenue</u>	
<u>All</u>	<u><\$50 million</u>	<u>>\$50 million</u>	
79%	81%	64%	

⁷ *Scientific Research and Experimental Development Tax Incentive Program Claimant Satisfaction Study, Final Report, May 10, 2006.* The report is published on the CRA's web site at <http://www.cra-arc.gc.ca/taxcredit/sred/priorities-e.html>.



CRA Survey Results

(Section 5.8) Percentage of respondents who had a concern with their most recently reviewed claim

Question 31: How satisfied or dissatisfied was your company/client with the resolution of its concerns regarding its most recently reviewed SR&ED claim?

	<u>% WITH CONCERNS</u>	
	<u>Revenue</u> <u><\$50 million</u>	<u>Revenue</u> <u>>\$50 million</u>
<u>All</u>	17%	34%

A significant percentage of respondents with concerns (**43%**) were **dissatisfied** with the resolution of concerns. The main reasons given for dissatisfaction were:

- lengthy process;
- unresolved/still taking place; and
- bureaucracy/red tape.

Question 17: During the most recent review, how familiar or unfamiliar was the CRA Research and Technology Advisor (science reviewer) with the industrial sector best associated with your company's/client's claim? (Underlining added for clarity.) (Note that the CRA report did not provide a breakdown of familiarity by revenue level of the claimant.)

Question 21: During the most recent review, how familiar or unfamiliar was the CRA financial reviewer with the financial issues associated with your company's/client's claim? (Underlining added for clarity.) (Note that the CRA report did not provide a breakdown of familiarity by revenue level of the claimant.)

	<u>Familiar</u>	<u>Unfamiliar</u>
Science reviewer (Research and Technology Advisor)	65%	17%
Financial Reviewer	80%	8%

Question 13: In preparing your company's/client's most recent SR&ED claim, indicate the level of ease or difficulty with each of the following:

	<u>% WHO RATED CLAIM PREPARATION AS EASY</u>		
	<u>All</u>	<u>Revenue</u> <u><\$10 million</u>	<u>Revenue</u> <u>> \$10 million</u>
Knowing what expenses are eligible	58%	60%	51%
Knowing what work is eligible	54%	57%	44%



CRA Survey Results

Question 14: In preparing your company's/client's most recent SR&ED claim, please indicate your level of agreement or disagreement with each of the following statements. (NOTE: The CRA report provided a breakdown of results only for some of the parts of this question.)

	<u>All</u>	<u>% WHO AGREE</u>	
		<u>Revenue <\$50 million</u>	<u>Revenue > \$50 million</u>
The CRA SR&ED staff answered my questions to my satisfaction	69%	70%	51%
The CRA SR&ED staff provided me information on a timely basis	64%	?	?
The CRA SR&ED staff informed me of things I had to do	66%	67%	52%
The CRA SR&ED staff Staff went the extra mile to make sure that I got what I wanted	56%	?	?

On-site review of claims (section 5.6, pages 32 and 35)

	<u>All</u>	<u>% LIKELIHOOD</u>	
		<u>Revenue <\$50 million</u>	<u>Revenue > \$50 million</u>
Likelihood of having had on-site review	65%	64%	80%
Likelihood of science reviewer (Research and Technology Advisor) participating in review	66%	64%	86%

	<u>All</u>	<u>% LIKELIHOOD</u>	
		<u>Revenue <\$10 million</u>	<u>Revenue >\$10 million</u>
Likelihood of Financial Reviewer participating in review	68%	66%	76%



CRA Survey Results

Question 19: Please indicate your level of agreement or disagreement with each of the following statements regarding the CRA research and technology advisor's (science reviewer's) most recent review of your company's/client's SR&ED claim. (NOTE: The CRA report provided a breakdown of results only for some of the parts of this question.)

	<u>% WHO AGREE</u>		
	<u>All</u>	<u>Revenue <\$50 million</u>	<u>Revenue > \$50 million</u>
The CRA SR&ED science reviewer answered my questions to my satisfaction	73%	?	?
The CRA SR&ED science reviewer provided me information on a timely basis	70%	?	?
The CRA SR&ED science reviewer went the extra mile to make sure that I got what I needed	58%	?	?

Question 23: Please indicate your level of agreement or disagreement with each of the following statements regarding the CRA financial reviewer's most recent review of your company's/client's SR&ED claim. (NOTE: The CRA report provided a breakdown of results only for some of the parts of this question.)

	<u>% WHO AGREE</u>		
	<u>All</u>	<u>Revenue <\$50 million</u>	<u>Revenue > \$50 million</u>
The CRA SR&ED Financial Reviewer answered my questions to my satisfaction	77%	79%	66%
The CRA SR&ED Financial Reviewer provided me information on a timely basis	73%	74%	62%
The CRA SR&ED Financial Reviewer went the extra mile to make sure that I got what I needed	66%	?	?



CRA Survey Results

Question 33: Overall, how satisfied or dissatisfied were you with the amount of time it took for the CRA to process your company's/client's most recently reviewed SR&ED claim?

	<u>% WHO ARE SATISFIED</u>	
	Revenue <u><\$50 million</u>	Revenue <u>>\$50 million</u>
<u>All</u>	61%	46%

