

Exploration Opportunities

Don't overlook SR&ED

By David Van Den Beld* and Shawn Reain*

Tax planning for many mining companies has often been a second thought. Yet, given the past rush on commodities prices over the past few years, a greater number of mining companies have become taxable or at least approached taxable positions. As a result, more mining companies are searching for ways to offset taxable positions. An often overlooked tax relief is Scientific Research and Experiment Development (SR&ED) investment tax credits (ITCs).

R&D typically conjures up images of white lab coats, beakers and test tubes. Some would think that the mining industry is not considered to be heavily involved in R&D efforts — how can pushing dirt or blowing up rock be technologically savvy? But the delineation of SR&ED in Canada is fairly broad and mining companies may have more SR&ED than they think.

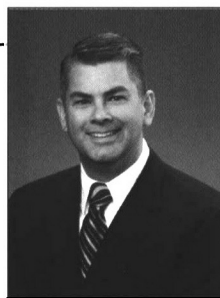
SR&ED defined

The SR&ED program is an incentive-based program to encourage Canadian companies to create new or improved technologically-advanced products or processes, thereby increasing knowledge and creating jobs in Canada.

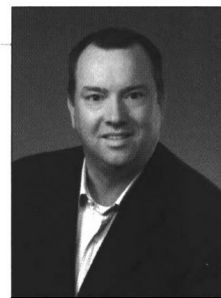
To be eligible, three main scientific criteria must be satisfied:

Scientific or Technological Advancement — Generating information or discovering technical knowledge that advances the understanding of the underlying technologies. The main concept is to attempt to increase the technology base of the company, and a failed attempt is just as eligible as a successful attempt.

Scientific or Technological Uncertainties/Obstacles — Attempting to resolve the shortcomings and/or limitations of the current state of technology that prevent the development of a new



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or improved capability.

Systematic investigation or search — Going through a process from identification to articulation of the obstacles to hypothesis formulation to testing by experimentation or analysis to the statement of logical conclusions.

There are six types of qualifying expenditures:

1. Labour — personnel employed by the company;
2. Overheads — either the proxy amount of 65% of directly engaged labour or a traditional overhead calculation;
3. Materials — items consumed and/or transformed;
4. Subcontractors;
5. Capital — all or substantially all used, or partially used, for SR&ED; and
6. Third Party Payments — typically funds paid to research institutes and universities.

How mining companies can benefit

A Canadian-controlled private corporation (CCPC) can earn ITCs of 35% up to the first \$4 million of qualified expenditures for SR&ED carried out in Canada and 20% on any excess amount. Generally, a CCPC with a taxable income in the immediately preceding year that does not exceed the business limit may receive a portion of the ITC earned as a refund, after applying these tax credits against taxes payable. Other Canadian corporations, proprietorships, partnerships and trusts can earn an ITC of 20% of qualified expenditures. It is non-refundable but may be used to reduce any taxes payable.

In addition to the above federal ITCs, extra provincial incentives are also available; in some provinces, like Alberta, Newfoundland, Québec and Saskatchewan, the provincial incentives are cash refundable for all companies.

Mining companies can also take advantage of two added benefits:

1. Companies can deduct the current and capital SR&ED expenditures to reduce income for tax purposes in the current year or carry these expenditures forward to reduce your income for tax purposes in future years; and
2. Unused ITCs may be carried back three years or carried forward 20 years.

Areas to consider

For mining companies, potential areas to claim as SR&ED are broad and could include:

- Environment (e.g. greenhouse gas reduction, wildlife, reclamation);
- IT development (e.g. communications, modeling simulations, process control systems, and remote equipment);
- Mining Operations (e.g. pilots, improved mining methods, wear reduction, and drilling equipment);
- Processing (e.g. improving throughput, ore feed changes, and energy reductions);
- Exploration (e.g. new detection methods and equipment and software development); and
- Working with universities and research institutes.

A potential not to be ignored

Canada's SR&ED tax incentives reflect government recognition that SR&ED is essential not only to the success of individual companies, but of Canada as a whole. Mining companies should make every effort to identify qualifying SR&ED activities early and track associated costs to ensure related investment tax credits are being maximized.

For more information, visit www.pwc.com/ca/mining and www.pwc.com/ca/tax.