



Department of Finance  
Canada

Ministère des Finances  
du Canada

# **Tax Incentives for Scientific Research and Experimental Development**

**Consultation Paper**

October 2007

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# Tax Incentives for Scientific Research and Experimental Development

## 1. Introduction

The scientific research and experimental development (SR&ED) tax incentive program is the single largest federal program supporting business research and development (R&D) in Canada, providing over \$3 billion in tax assistance to Canadian businesses in 2006. The SR&ED tax incentive program plays, and will continue to play, a leading role in fostering a competitive and dynamic business environment in Canada. The Government is undertaking a consultation exercise on the SR&ED tax incentive program because it believes that we can build on the program's successes.

### a) Background

Science and technology, particularly business sector R&D, are crucial to the long-term growth and prosperity of our economy. The fundamental importance of such activities was recognized both in *Advantage Canada: Building a Strong Economy for Canadians*, the Government's long-term economic plan, and in *Mobilizing Science and Technology to Canada's Advantage*, the Government's strategic plan for science and technology, which provides an overall guide for future science and technology decision-making (the "S&T Strategy").

Central to both *Advantage Canada* and the S&T Strategy is the idea that the private sector must be the leader in turning research and knowledge into innovation that benefits Canadians, while the most important role for the Government of Canada is to ensure a competitive marketplace and to foster an investment climate that encourages the private sector to innovate.

Both *Advantage Canada* and the S&T Strategy commit the Government to maximize the impact of the Government's investment in R&D. Increasing the impact of federal business R&D assistance programs is an important component of the Government's commitment. One element of achieving this objective, as set out in both Budget 2007 and the S&T Strategy, is to improve the SR&ED program, including its administration, to further encourage R&D within the business sector in Canada. The consultations on the SR&ED tax incentives will play an important role in helping the Government identify such opportunities.

### b) Consultation process

The consultation process will allow the Government to hear from all interested stakeholders regarding the ways in which the SR&ED program assists R&D performers in Canada's business sector, as well as the challenges businesses face in accessing the R&D support available through the tax system. It will help the Government identify priority areas where the program can be improved while maintaining the integrity of the tax system.

In undertaking these consultations, the Government's main goal is to increase the level of private sector R&D performed in Canada by improving the SR&ED program through cost-effective improvements to the tax incentives and further streamlining the program's administration. The consultation process is being conducted jointly by the Department of Finance and the Canada Revenue Agency (CRA). Written submissions are invited until November 30, 2007.

## 2. Description of the SR&ED program

The Department of Finance and the CRA share responsibility for the SR&ED tax incentives. The Department of Finance sets out the tax policy and parameters governing the income tax deductions and investment tax credits which constitute the incentives. The *Income Tax Act* and related regulations set out the key elements of the current system, including the definition of SR&ED, the types of expenditures which are eligible for the SR&ED incentives, and the calculation of the income tax deductions and investment tax credits themselves. The CRA is responsible for administering the SR&ED program, which it does by providing claimants with program information, responding to inquiries, reviewing and processing claims, developing and publishing forms, guides, application policies and brochures, and by delivering various services such as public information seminars, the pre-claim project review service and the account executive service.

### a) Objectives

The federal income tax incentives for SR&ED are intended to provide broad-based support for SR&ED performed in every industrial sector in Canada, and to support small businesses in the performance of SR&ED. The rationale for this tax support is that the benefits of SR&ED extend beyond the performers themselves to other firms and sectors of the economy. The existence of these spillovers, or externalities, means that, in the absence of government support, firms would perform less SR&ED than is optimal for the economy.

### b) Summary of program rules

The following description of the SR&ED tax incentives is of a general nature only. For guidance on whether an activity or an expenditure is eligible for the SR&ED tax incentives, taxpayers should consult the *Income Tax Act* and the CRA.<sup>1</sup>

The SR&ED tax incentives have two components:

- An income tax deduction allows immediate expensing of all allowable expenditures (including full expensing of capital in the year of purchase subject to certain rules). The full value of current and capital SR&ED expenditures are added to a pool of unused SR&ED deductions, which can be taken at the discretion of the taxpayer. Unused deductions can be carried forward indefinitely.
- An investment tax credit, which is applied to income taxes otherwise payable. Unused credits can be carried forward 20 years and back three years to reduce taxes payable in those years, and are partially or fully refundable for smaller businesses.

A business can generally claim both the income tax deduction and the investment tax credit on the same SR&ED expenditures, although there are some specific differences in the base of expenditures eligible for the two components of the program.

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<sup>1</sup> Interested parties can find more information on the CRA SR&ED website: [www.cra-arc.gc.ca/sred/](http://www.cra-arc.gc.ca/sred/).

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### *i. Eligible activities*

Activities eligible for the SR&ED tax incentives involve systematic investigation or search carried out in a field of science or technology by means of experiment or analysis. In general, three broad categories of activity are eligible: basic research, applied research, and experimental development.<sup>2</sup> Certain support activities are also eligible where they are commensurate with the needs, and directly in support, of basic research, applied research or experimental development, although there are also certain activities that are excluded from the definition of SR&ED.

When reviewing whether an activity falls within the scope of the SR&ED program, the CRA uses the following three criteria, each of which must be satisfied, to determine whether the activity meets the definition of SR&ED:

1. Scientific or technological advancement - The work must generate information that advances the understanding of scientific relations or technologies.
2. Scientific or technological uncertainty - The possibility of achieving a given result or objective, or the way in which it could be achieved, must be unknown or indeterminable based on generally available scientific or technological knowledge or experience.
3. Scientific and technical content - There must be evidence that qualified personnel with relevant experience in science, technology, or engineering have conducted a systematic investigation through experiment or analysis.

Further information, including application policies and guides, can be found on the CRA website.

### *ii. Eligible expenditures*

Most current and capital expenditures in respect of SR&ED in Canada performed by, or on behalf of, a taxpayer and related to a business of the taxpayer, including a possible extension of that business, may be eligible for the SR&ED tax incentives.

In general, current expenses that are eligible for the SR&ED tax incentives include:

- salaries or wages of employees directly engaged in SR&ED;
- the cost of materials consumed or transformed in SR&ED;
- lease costs relating to machinery and equipment used all or substantially all (90 per cent or more) for SR&ED; and

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<sup>2</sup> The definition of SR&ED for income tax purposes is largely consistent with the Organisation for Economic Co-operation and Development (OECD) definition of R&D, as presented in the Frascati Manual. The Frascati Manual is a document stipulating the methodology for collecting and using statistics about R&D in OECD member countries. The standardized definition of R&D identified by the Frascati Manual has been used for policy development in many OECD and non-OECD countries.

- certain expenses associated with contracts to perform SR&ED directly on behalf of the taxpayer or payments to third parties where the taxpayer is entitled to exploit the results of the SR&ED.<sup>3</sup>

In addition, taxpayers have a choice in how to treat overhead and administrative expenses. Under the “traditional method”, overhead and administrative expenses must be specifically identified and allocated in respect of SR&ED and may be eligible for both the SR&ED tax deduction and credits. Under the “proxy method”, these costs are deductible as ordinary overhead and administrative expenses and a notional amount is calculated which is eligible for the SR&ED tax credits.

In general, capital expenditures that are eligible for the SR&ED tax incentives consist of expenditures for machinery and equipment that is all or substantially all used or consumed in the performance of SR&ED in Canada.

### ***iii. Rates & limits***

There are two rates of investment tax credits (ITCs) for SR&ED in Canada:

- the general rate is 20 per cent; and
- an enhanced rate of 35 per cent is provided to small Canadian-controlled private corporations (CCPCs) on their first \$2 million of qualified expenditures.

Unused credits earned in a year are refundable for small CCPCs that have prior-year taxable income of \$400,000 or less and prior-year taxable capital of \$10 million or less.<sup>4</sup> For these corporations, ITCs on the first \$2 million of current expenses are fully refundable.<sup>5</sup> ITCs on other current expenses and all capital expenditures by small CCPCs are eligible for a 40 per cent refund. The \$2 million expenditure limit is phased out if prior-year taxable income is between \$400,000 and \$600,000 or prior-year taxable capital is between \$10 million and \$15 million.

Unused ITCs can be carried back up to three years and carried forward up to 20 years to be applied against taxes payable in those years.

Annex 1 outlines the credit rates and refundability rates for different types of businesses.

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<sup>3</sup> Generally, eligible third parties are approved non-profit or tax-exempt associations, universities, colleges, research institutes and similar organizations.

<sup>4</sup> Special rules apply to associated corporations, which generally result in the application of taxable income, taxable capital and expenditure limits to group totals.

<sup>5</sup> Where a tax credit is refundable, the portion of the credit which is not needed to reduce a taxpayer's tax liability (because the credit available exceeds the tax liability otherwise payable) may be paid to the taxpayer.

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### **c) Recent changes**

The basic structure of the current system of federal income tax incentives for SR&ED was put in place between 1983 and 1985. Recent legislative changes include the following:

- In Budget 2006, the carry-forward period for unused SR&ED tax credits was extended from 10 years to 20 years.
- Budget 2006 also increased the range of prior-year taxable income, described above, over which the enhanced credits for small CCPCs are phased out, from \$300,000 to \$500,000 to the current range of \$400,000 to \$600,000.<sup>6</sup>

### **d) Administrative context**

In recent years, the CRA has made significant gains in its delivery of the SR&ED program. A number of indicators provide information on how the program is performing. For example, the program has succeeded in meeting its four service standards for the past four years.<sup>7</sup>

The SR&ED program's best source of performance information is from the SR&ED claimants, both directly and through its triennial claimant surveys. The CRA conducted its most recent claimant survey in the fall of 2005. More than 1,400 Canadian companies and individuals who had recently claimed SR&ED tax incentives responded to the survey and provided important feedback on the CRA's administration of the SR&ED program. 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.

In the past year, the CRA undertook to enhance timeliness through a realignment of its internal claim review processes, focusing on improvements to the program's workflow and risk management.

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<sup>6</sup> The lower bound of the phase-out range for enhanced SR&ED provisions is linked to the income test used to determine eligibility for the small business deduction, which reduces the tax liability for small CCPCs. Budget 2006 increased the limit relevant to the small business deduction, with the consequence that the SR&ED phase-out range also increased.

<sup>7</sup> Information on the SR&ED service standards can be found on the CRA website at: [www.cra-arc.gc.ca/taxcredit/sred/service\\_stds-e.html](http://www.cra-arc.gc.ca/taxcredit/sred/service_stds-e.html).

The CRA is now focusing on addressing the complexity of its forms and publications. This is being accomplished by developing:

- a simplified claim form; and
- a self-assessment tool to help claimants determine potential eligibility for the credit.

This work is now well underway.

### 3. Analysis of the SR&ED program

#### a) Tax expenditures

Each year, tax expenditure estimates and projections are prepared by the Department of Finance to measure the assistance provided to corporations through the tax credit component of the SR&ED program.<sup>8</sup> In 2006, over \$3 billion in assistance was provided to corporations via the SR&ED tax credit (see Table 1).<sup>9</sup>

**Table 1**

**Projected tax expenditure associated with the SR&ED investment tax credit (\$ millions, 2006)**<sup>10</sup>

Tax credits earned and claimed in current year	1,900
Tax credits claimed in current year but earned in prior years	1,095
Tax credits earned in current year but carried back to prior years	95
<b>Total expenditure</b>	<b>3,090</b>

Source: *Tax Expenditures and Evaluations 2006* (Department of Finance, 2007).

#### b) Statistics on program usage

Annex 2 provides a number of tables showing basic data on the use of the SR&ED program by businesses in Canada between 2002 and 2004. This section of the paper highlights some of the information contained in Annex 2.

The number of corporations earning SR&ED tax credits reached 19,685 in 2004, while the value of allowable SR&ED expenditures reached \$14.4 billion. Corporations deducted \$8.3 billion of allowable SR&ED expenditures to reduce their taxable income in 2004, and earned \$3.4 billion of SR&ED ITCs.

<sup>8</sup> The Department of Finance does not prepare estimates and projections of the tax expenditure associated with the deduction of eligible SR&ED expenditures. While the immediate deduction for eligible SR&ED expenditures on capital should be considered tax assistance (in the absence of this provision, these amounts would be depreciable over several years), tax expenditure estimates/projections are not provided for these accelerated write-offs because adequate data are not available to calculate them with any degree of accuracy.

<sup>9</sup> Estimates of tax expenditures and assistance are presented gross of related reductions in the available tax deduction related to SR&ED.

<sup>10</sup> For further information on the detailed methodology used to prepare tax expenditure estimates, see *Tax Expenditures: Notes to the Estimates/Projections* (Department of Finance, 2004).

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A large majority of SR&ED performers are CCPCs, with most of them meeting the taxable capital and taxable income tests qualifying them for enhanced small business SR&ED incentives. While small CCPCs account for around 80 per cent of corporate SR&ED performers, they account for only 23 per cent of allowable SR&ED expenditures. However, the enhanced ITCs earned by smaller CCPCs at a rate of 35 per cent made up 32 per cent of total credits earned, while refunds of ITCs to these performers accounted for 29 per cent of total credits earned in 2004.

The manufacturing sector is the largest beneficiary of the SR&ED ITCs, accounting for nearly one-half of ITCs earned. Within the manufacturing sector, computer and computer product manufacturing, transportation equipment manufacturing and chemical manufacturing are the largest users of the SR&ED program. Service industries, particularly professional, scientific and technical industries, and information and cultural industries are also significant users of SR&ED tax credits.

### **c) Evaluation of the SR&ED tax credit**

A recent Department of Finance working paper provides an economic evaluation of the SR&ED tax credit and finds that it creates a net economic gain for the Canadian economy.<sup>11</sup>

The study shows that the positive economic benefits associated with the SR&ED tax credit are derived from the spillovers that occur when the benefits of SR&ED extend beyond the performers themselves to other firms and sectors of the economy. These spillovers amount to about 46 cents per dollar of tax expenditure and more than offset the costs of the credit, estimated to be 36 cents per dollar of tax expenditure. Thus the SR&ED tax credit creates a gross economic gain of \$1.11 for every dollar spent on it, and a net economic gain of 11 cents per dollar.<sup>12</sup> These estimates are sensitive to the underlying assumptions used in the working paper, but the study shows that the SR&ED tax credit generates positive net economic benefits under a range of reasonable assumptions.

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<sup>11</sup> M. Parsons and N. Phillips (2007), "An Evaluation of the Federal Tax Credit for Scientific Research and Experimental Development," Department of Finance, Working Paper 2007-08. Copies of Department of Finance working papers can be requested at [www.fin.gc.ca/access/wpliste.html](http://www.fin.gc.ca/access/wpliste.html).

<sup>12</sup> The methodology used in the working paper cannot be used to calculate the effects of marginal changes to the program. Deriving the optimal incentive levels would require equating the program's marginal benefit with its marginal cost, which is outside the scope of the paper.

## 4. International comparisons of R&D incentives

R&D tax incentives are used extensively across OECD economies to provide support for business R&D expenditures. However, there exist significant differences in the design of R&D tax incentives, many of which affect their relative generosity. The main differences in design are:

- the type of tax incentive - investment tax credits, accelerated deductions or reductions in corporate tax levies;
- the level of the tax incentive;
- the type of expenditures eligible;
- the expenditure base - whether the incentive applies to all expenditures or to incremental spending only; and
- the level of the statutory corporate income tax rate, which affects the value of the accelerated deductions and the amount of taxes paid on income generated by successful R&D.

### a) B-index

The B-index is commonly used by the OECD for international comparisons of R&D tax regimes. It measures the present value of pre-tax income required to cover the initial cost of R&D investment and corporate income tax.<sup>13</sup> The impact of the tax system is isolated by deducting the initial cost of the investment. Lower B-index values indicate more favorable tax regimes.

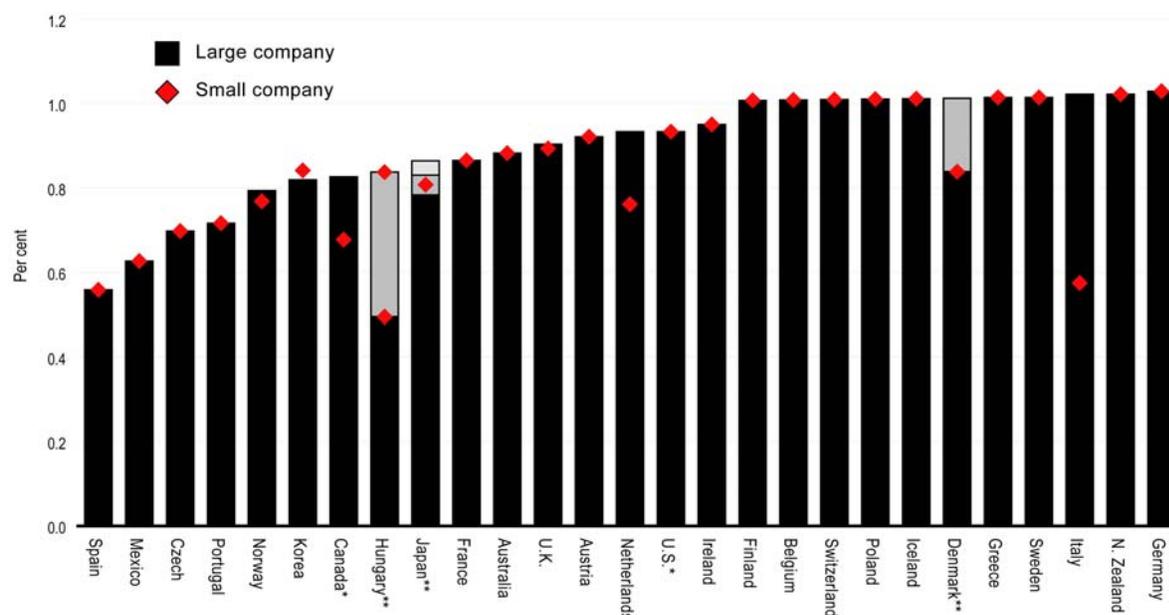
Chart 1 presents the B-index in 2005 for OECD countries by large and small taxable firms. It shows that Canada's federal system of R&D tax incentives is among the most advantageous in the world. Canada would rank in the top five if provincial measures were included in the OECD indicator.

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<sup>13</sup> See "OECD Science, Technology and Industry Scoreboard 2005" for a more detailed description of the methodology.

**Chart 1**  
**B-index comparison of R&D tax incentives across OECD countries, 2005**

(Lower B-index indicates more favorable tax regime)



\* Data for Canada and the U.S. do not include provincial and state level tax incentives.

\*\*Hungary, Japan and Denmark provide multiple incentives for R&D investments by large firms depending on the circumstances. The B-index for alternative incentives are represented by partially shaded bars.

Source: J. Warda (2006), "Tax Treatment of Business Investments in Intellectual Assets: An International Comparison," Organisation for Economic Co-operation and Development, STI Working Paper, 2006/4.

## b) Marginal effective tax rates on investments in R&D assets

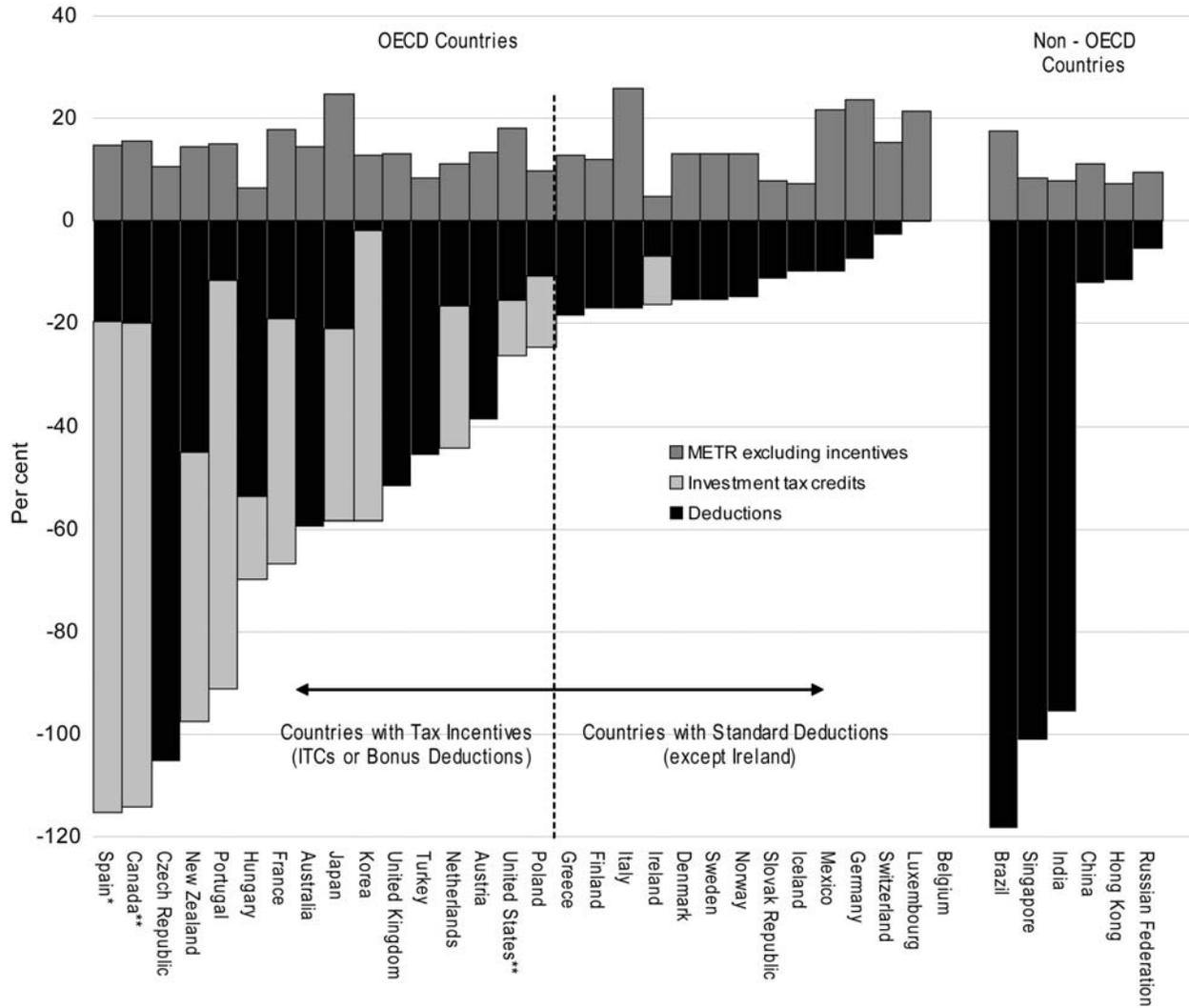
Although the B-index is a useful tool to measure the relative value of R&D tax incentives, it does not account for other important features of the corporate tax system, including profit-insensitive taxes such as capital taxes, and deductions allowed for interest payments on loans. A more comprehensive indicator of the overall tax burden on a marginal investment that accounts for these features is the marginal effective tax rate (METR).<sup>14</sup> A recent working paper from the Department of Finance extends the METR methodology presented in *Tax Expenditures and Evaluations 2006* to apply to new investments in R&D.<sup>15</sup> The study compares METRs on R&D investment made by a large profitable firm across thirty OECD countries and six key emerging and transition economies.

<sup>14</sup> A METR measures the extra return on an incremental investment required to pay corporate-level taxes, expressed as a percentage of the total return to shareholders. For example, if the gross-of-tax return to shareholders is 6 per cent and if the corporate tax system reduces this return to 4 per cent, the METR would be 33 per cent. Where the tax system boosts the rate of return on investments, the METR will be negative.

<sup>15</sup> J. Lester, A. Patry and D. Ad e (2007), "An International Comparison of Marginal Effective Tax Rates on Investment in R&D by Large Firms," Department of Finance, Working Paper 2007-07. Copies of Department of Finance working papers can be requested at [www.fin.gc.ca/access/wpliste.html](http://www.fin.gc.ca/access/wpliste.html).

Summary results from the METR analysis are presented in Chart 2. The results show Canada has one of the lowest METRs on new investments in R&D in the OECD in 2011, and the lowest METR in the G7.

**Chart 2**  
**METR on new investment in R&D across countries, 2011**



\*Spain has plans to eliminate its tax credit for R&D in 2012.

\*\*The calculation of the METR in Canada and the United States takes into account incentives available from provincial and state governments.

Source: J. Lester, A. Patry and D. Adéa (2007), "An International Comparison of Marginal Effective Tax Rates on Investment in R&D by Large Firms," Department of Finance, Working Paper 2007-07.

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### **c) Qualitative comparisons**

It is important to note that the cross-country comparisons of the level and rank of R&D tax incentives, as illustrated by the B-index and the METRs presented in this section, are sensitive to a number of assumptions. In particular, both models assume firms are profitable and both make simplifying assumptions about how some qualitative features affect the value of incentives.<sup>16</sup> For example, Mexico caps overall government expenditures on the tax incentive, while France and Norway, among other countries, cap expenditures eligible for each business.

The B-index and the METR are useful tools to summarize the relative generosity of R&D tax incentives in one measure. The OECD is currently undertaking work to better understand and compare the detailed features of R&D tax incentives in its member countries.

## **5. Improving the SR&ED program – questions for consultation**

Increasing the level of private sector R&D performed in Canada is an important avenue for improving productivity, and business sector R&D best supports innovation and productivity when it is driven by market considerations. This consultation paper sets out a number of key questions on which the Government is seeking input. Comments are invited on these and on other matters that are important to stakeholders.

### **a) How do the SR&ED tax incentives affect the performance of R&D in Canada, and how can they contribute to increasing private sector investment in R&D?**

Among the specific areas that stakeholders may want to address are:

- the role the SR&ED tax incentives play in the R&D investment decisions of Canada's R&D performers; and
- how multinationals make decisions on the location of R&D activities, and how SR&ED tax incentives, and R&D tax incentives offered by other countries, play into that decision.

### **b) Are there features of the SR&ED tax incentives that impede the growth of small and medium sized innovative Canadian companies, and how?**

Input is solicited on whether and in what way the legislated rules governing the SR&ED tax incentives create barriers to the growth of small and medium sized innovative Canadian companies, and on how firms currently manage the constraints.

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<sup>16</sup> A detailed discussion on the assumptions underlying the METR estimates is presented in the working paper. Information on the assumptions adopted for the B-index calculations is presented in Warda (2006).

### **c) How could more private sector R&D be leveraged?**

Stakeholders may wish to comment on, for example:

- whether the structure of the SR&ED tax incentives could be improved to encourage more private-sector R&D in a cost-effective manner; and
- how the SR&ED tax incentives could best support public-private R&D collaborations, as highlighted in the S&T Strategy.

### **d) Given the improvements already implemented or under study, how could administration of the SR&ED tax incentives be further improved and their complexity reduced?**

Consistent with the Government's commitments in Budget 2007 to reduce the paper burden and the tax compliance burden on businesses, comments are welcome on:

- whether there are provisions of the program that are difficult to access; how severe such difficulties are; and what effect they have on the compliance burden, or on the amount of support the firm receives;
- whether the CRA processes claims consistently and what the CRA can do to strengthen the level of consistency of the SR&ED claim review process;
- whether there are areas of complexity within the program where the Government could improve/simplify the process for claimants while ensuring that the program is delivered as intended and that fiscal integrity of the program is maintained; and
- how the Government can improve the way in which information about the program is provided, better improve the services provided, and ensure that businesses are aware of the program.

## **6. Invitation for comments**

Written submissions should be made at [www.fin.gc.ca/activty/consult/sred\\_e.html](http://www.fin.gc.ca/activty/consult/sred_e.html) or mailed to the address below by November 30, 2007. Submissions will be used by officials of both the Department of Finance and the Canada Revenue Agency. Please note that, in this consultation initiative, we offer to post your submission on the Department of Finance website. Please clearly indicate in your communication whether or not you grant us permission to post your comments on this website. If you do not give explicit permission, we will not post your submission.

If you do give permission, we need the following information:

- Your full name.
- The name of your organization, if applicable.
- Your full mailing address, including postal code.
- Your telephone number, including area code.
- Your e-mail address and fax number, if applicable.

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Submissions may be made in either official language. Please indicate whether you would like to be contacted in English or in French.

In addition, the Government is planning a series of meetings during the consultation process, allowing stakeholders an opportunity to provide comments directly to the Department of Finance and the CRA.

Questions on the consultation process may be addressed to:

Nancy Horsman & Peter C. Armstrong  
Joint Finance Canada-Canada Revenue Agency SR&ED Consultations  
140 O'Connor Street  
Ottawa, Ontario  
K1A 0G5  
613-947-6563  
Fax: 613-943-2486

## Annex 1: Federal SR&ED tax credit rates and rates of refundability (%)

Business Type	Credit Rates	Refundability Rates	
		Current Expenditures	Capital Expenditures
<b>Unincorporated Businesses</b>	20	40	40
<b>CCPCs with prior-year taxable income of \$400,000 or less and prior-year taxable capital employed in Canada of \$10 million or less</b>			
Expenditures up to expenditure limit <sup>1</sup>	35	100	40
Expenditures over expenditure limit	20	40	40
<b>CCPCs with prior-year taxable income between \$400,000 and \$600,000</b>			
Expenditures up to expenditure limit <sup>2</sup>	35	100	40
Expenditures over expenditure limit	20	0	0
<b>CCPCs with prior-year taxable capital employed in Canada between \$10 million and \$15 million</b>			
Expenditures up to expenditure limit <sup>3</sup>	35	100	40
Expenditures over expenditure limit	20	0	0
<b>All Other Corporations</b>	20	0	0

1 Expenditure limit is generally \$2 million per annum.

2 Expenditure limit for CCPCs is phased out for prior-year taxable income between \$400,000 and \$600,000.

3 Expenditure limit for CCPCs is phased out for prior-year taxable capital employed in Canada between \$10 million and \$15 million.



**Table 2**  
**Qualified Expenditures for ITC purposes**

	All Corporations			Small CCPCs		
	Allowable expenditures	Adjustments	Qualified expenditures	Allowable expenditures	Adjustments	Qualified expenditures
	<i>\$ million</i>			<i>\$ million</i>		
2002	14,335	-191	14,144	2,758	358	3,116
2003	14,086	-441	13,645	2,891	457	3,348
2004	14,354	-206	14,148	3,327	401	3,728

Note: Allowable expenditures are expenditures that are generally eligible for the SR&ED deduction; qualified expenditures are expenditures that are eligible for the SR&ED investment tax credit. Major components of the adjustments to allowable SR&ED expenditures to determine qualified expenditures for purposes of the SR&ED ITC include reductions for government and non-government assistance for expenditures and additions related to the proxy method for overhead.

**Table 3**  
**Credits Earned by Rate**

	By Value of Credits			By Number of Corporations			
	Earned at 35% rate	Earned at 20% rate	Total credits earned	Earning at 35% rate	Earning at 20% rate	Earning at both 35% & 20% rates	Total corporations earning credits
	<i>\$ million</i>			<i>number of corporations</i>			
2002	865	2,397	3,262	11,603	4,133	325	16,061
2003	954	2,238	3,193	13,418	4,309	339	18,066
2004	1,083	2,271	3,354	15,295	4,051	339	19,685

**Table 4**  
**Distribution of Credits Earned by Corporation Size**

	By Value of Credits			By Number of Corporations		
	2002	2003	2004	2002	2003	2004
	<i>% of total credits earned</i>			<i>% of total corporations earning credits</i>		
CCPCs, by taxable income (\$000)						
0 – 400	31.7	34.8	35.6	79.1	80.8	81.8
400 – 600	0.7	0.9	1.2	1.9	2.3	2.4
600 – 1,000	0.9	0.8	1.0	2.0	1.8	1.9
1,000 +	4.7	4.2	4.4	4.4	4.0	4.1
Total CCPCs	38.1	40.8	42.1	87.4	88.9	90.1
All other corporations	61.9	59.2	57.9	12.6	11.1	9.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
CCPCs, by taxable capital (\$000,000)						
0 – 10	31.3	35.0	n/a	82.8	84.7	n/a
10 – 15	1.3	1.1	n/a	1.5	1.5	n/a
15 – 25	1.4	1.2	n/a	1.4	1.1	n/a
25 – 50	2.0	1.3	n/a	1.0	0.9	n/a
50 – 75	0.5	0.5	n/a	0.3	0.3	n/a
75 +	1.6	1.7	n/a	0.3	0.3	n/a
Total CCPCs	38.1	40.8	42.1	87.4	88.9	90.1
All other corporations	61.9	59.2	57.9	12.6	11.1	9.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note: Due to changes in reporting requirements, detailed breakdowns by taxable capital are not available for 2004.

**Table 5**  
**Distribution of Credits Earned by Sector**

	By Value of Credits			By Number of Corporations		
	2002	2003	2004	2002	2003	2004
<b>Industrial sector</b>	<i>% of total credits earned</i>			<i>% of total corporations earning credits</i>		
Agriculture, forestry, fishing and hunting	1.4	1.6	2.1	7.1	9.0	10.3
Manufacturing	47.0	47.4	47.6	41.7	41.2	40.5
Construction	0.6	0.7	0.7	2.4	2.4	2.5
Transportation and warehousing	0.5	0.4	0.3	0.7	0.7	0.7
Information and cultural industries	12.9	11.8	11.6	3.6	3.4	3.1
Utilities	0.1	0.1	0.1	0.1	0.1	0.1
Wholesale trade	4.2	4.7	4.6	7.3	7.4	7.8
Retail trade	0.8	0.8	0.8	1.6	1.7	1.7
Financial intermediaries	1.0	1.3	1.3	1.3	1.3	1.4
Management of companies and enterprises	0.6	0.4	0.5	1.1	1.0	1.0
Other services	27.8	27.3	26.7	30.7	29.6	28.7
Oil and gas	2.3	2.5	2.7	1.0	0.9	0.8
Mining	0.4	0.7	0.5	0.3	0.3	0.2
Other	0.2	0.3	0.6	0.8	1.0	1.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>