

Debunking the myth: SR&ED eligibility for E&P companies

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Why should SR&ED matter to E&P?

SR&ED is a major competitive advantage for oil and gas companies to reduce costs in today's economy. SR&ED is Canada's largest industrial innovation program, returning between 15% and 41.5% of eligible costs for activities that advance technology or scientific understanding.

E&P companies are eligible for SR&ED

At first glance, the Income Tax Act (ITA) appears to explicitly disallow E&P corporations from claiming SR&ED. One clause reads that SR&ED excludes work with respect to "prospecting, exploring or drilling for, or producing, minerals, petroleum or natural gas" {subsection 248(1)(h)}. So why are so many E&P companies able to successfully claim SR&ED year over year?

It's about the science

A core technological or scientific question is the fundamental reason why oil and gas companies can successfully claim SR&ED. The fact that petroleum or natural gas is produced as a byproduct of the SR&ED project is a consequence rather than the goal of the project. Although production is achieved, the focus of the SR&ED work is actually centered on advancing the underlying technological or scientific understanding.

Why the apparent bias against oil and gas?

The policy intent of SR&ED is to stimulate innovation and technological advancement, not subsidize commercial production. As a result, commercial production (e.g. standard development drilling) is not SR&ED eligible. To address the geological "unknowns" of exploration, the government has implemented other incentives, such as CEE/CDE tax loss pools (although CEE treatment will be phased out beginning in 2018). Successful oil and gas SR&ED claims, therefore, generally pertain to overcoming limitations of current technology; the taxpayer's claim must articulate how a specific project goes beyond standard industry practice.

Viewed simply, oil and gas SR&ED claims are no different than other industries, as they focus on resolving a specific problem or exploring underlying scientific principles. In application, the Canada Revenue Agency does not hold an administrative bias against oil and gas companies; many of Canada's largest E&P and service companies have a long history of claiming SR&ED.

Takeaways

If your energy company has not previously evaluated SR&ED, you may be overlooking a major cost-saving opportunity.

In today's economic environment, energy companies must look at all avenues to reduce costs, continue innovating and maintain a competitive advantage. SR&ED is a low-risk program that allows companies to recoup costs and drive innovation to out-pace competitors.

To explore the size of the opportunity for your company please contact us for a free assessment

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