

Experimenting with Medical Marijuana Can Yield Valuable Tax Credits

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If you're a licensed producer of medical cannabis, you may not think you are performing scientific research or experimental development – but you likely are. And the good news is that you may be eligible for valuable government tax credits for some of the work you are doing.

Canada's Scientific Research & Experimental Development (SR&ED) program provides generous financial incentives to encourage scientific and technological advancements.

What qualifies?

In the cannabis industry, these advances might relate to a production facility that is developing new plant cultivars for disease resistance, creating a new fertilizer blend for higher yields, developing biological pest controls, experimenting with new lighting regimes for faster plant growth, or improving HVAC controls. Development of other forms of cannabis products, such as wax, shatter, oils and edibles, or methods to assess product characteristics such as cannabinoid concentration, sub-type proportions, combustion or other experimental properties may also qualify.

Post-production, clinical trials involving medical patients to assess dose-response of different cultivars of cannabis may be conducted. Medical clinics are collecting and analyzing patient data to investigate the health and therapeutic benefits of specific strains of cannabis. These and many other related activities are likely eligible for SR&ED incentives.

Activities may qualify for SR&ED tax credits when they are focused on creating or improving materials, products or processes, and they are performed in a systematic way with supporting documentation. Moreover, the activities do not have to be successfully undertaken for a project to qualify for the program. You simply need to demonstrate that you attempted to achieve a desired scientific or technological advancement.

Just how valuable are the tax incentives? Canada has one of the most generous SR&ED programs in the world. A Canadian Controlled Private Corporation, for example, can recover up to 66 percent of direct labour

costs related to research expenditures including salaries, materials and contractor fees. A large or public company can recover up to 38% of these costs.

Clearly, the advantages of SR&ED are not just intended for large businesses. In fact, smaller businesses – even start-ups – can receive more valuable benefits, providing they meet SR&ED project requirements.

How do I capture the benefits?

The SR&ED program doesn't require preparing a proposal and then waiting for its approval. Instead, you carry out the work and then make a claim. The key to a successful claim is to include only projects that are SR&ED eligible. You want to avoid a situation where your claim is reduced or disallowed, resulting in wasted time, effort and a larger-than-expected tax bill.

To determine a project's eligibility, the Canada Revenue Agency (CRA) considers several technical questions. Using known practices to achieve a goal is generally not considered SR&ED. Essentially, activities must meet three criteria: scientific or technological advancement must be sought, technological uncertainty must be reduced by formulating hypotheses or tentative solutions, and qualified personnel with relevant experience must systematically perform and document the work (testing of hypotheses). Early consulting with experienced advisors can help identify appropriate work to ensure SR&ED eligibility.



Because of its novelty, the CRA intently scrutinizes SR&ED claims from the cannabis industry. Proper documentation is essential to support claimed activities. This involves clearly identifying in writing – and from the outset of the work – the technical challenges that exist, the systematic process used to overcome these challenges and the progress along the way. Again, advisors can assist in providing documentation guidance to meet CRA requirements. While documentation will vary according to the nature of the work, examples might include records that benchmark standard industry practices and identify the variables to be tested, a project plan, an analysis of results, time logs to support labour charges, and statement of work documents for third-party contractor expenses.

You can file a SR&ED claim within 18 months following the fiscal year-end of the year in which you incurred the expenditures. The claim can be submitted with the corporate tax return or filed later as an amendment. While most businesses will receive SR&ED tax credits or cash within a few months, claimants should be prepared for a potential audit by the CRA. Audits will extend the waiting period.

Don't miss out on significant tax savings. Some of your daily activities may already qualify for SR&ED incentives. Since there are no penalties associated with submitting a claim, there's nothing to lose and potentially much for your bottom line to gain.

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For more information on how you can take advantage of the SR&ED tax credits, contact:



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