

February 22, 2010

Information on Scientific Research and Experimental Development Investment Tax Credits

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Introduction

On February 6, 2002, Canada Revenue Agency (CRA) announced that Canadian Agricultural Producers who contribute funds to Scientific Research and Experimental Development (SRED) are entitled to investment tax credits (ITC's).

While the regulations did not change, broader interpretation and application of the rules provide dairy producers greater access to ITC's. Prior to this, the only entity that could take advantage of the ITC was the entity that disbursed the research funds. Since individual producers did not directly fund the research, producers could not claim an ITC. This change allows Dairy Farmers of Ontario (DFO) to act as the flow-through agent for producers and therefore, enable producers to utilize ITC's when preparing the tax returns for their operations.

We have calculated the amount of the qualifying expenditures for the year ended December 31, 2009 and this information is included in the attached letter for tax purposes. You may need to adjust this amount if your tax year does not end on December 31.

How is the value of the ITC deduction determined?

The general rules for qualifying expenditures are that the research must be carried out in Canada, at an approved facility and producers must have first right to exploit the benefits of the research.

DFO is responsible for filing the SRED Form T661 with CRA and ensuring that the projects claimed meet the above criteria. At present, DFO collects 4 cents per hectolitre of milk marketed from producers each month, for research purposes, through the producer milk payment process. These funds are used for research projects and activities as recommended by the Research Committee and approved by the Board of Directors. In addition, a portion of the funds collected through the \$1.30 per hectolitre promotion deduction is forwarded to Dairy Farmers of Canada, who in turn invest some of these funds in research. It is important to note that the eligible qualifying expenditures for ITC purposes are limited to the actual research project payment made in each year and may not correspond to the producer deductions or check-offs.

How do I claim the Investment Tax Credit?

Based on the information described above, each producer will need to complete an ITC claim form if you wish to claim the tax credit. Individuals are required to complete a form T2038 (IND) while corporations must complete the form T2SCH31. These forms are available through your tax advisor or the CCRA Web site <http://www.cra-arc.gc.ca/txcrdt/sred-rsde/pblctns/menu-eng.html>.

The ITC claim form must be filed by tax year with your applicable Income Tax Returns. **Please consult with your tax advisor if you require any assistance with the completion of your tax return or the completion of Form T2038 or Form T2SCH31.**

More information can be found at www.cra-arc.gc.ca/txcrdt/sred-rsde/menu-eng.html.