

## FABrIC Eligible Project Expenses Guide

The information described in this document is subject to change. Refer to the FABrIC website for any updates FABrIC ([fabricinnovation.ca](http://fabricinnovation.ca)).

### Eligible Costs

Eligible Costs incurred and paid by the Recipients are those which are necessary to carry out the Approved Project Activities. These costs are generally non-recurring and incremental to ordinary business activities. Eligible Costs shall be reasonable, such that the nature and the amounts do not exceed what an ordinary prudent person would conduct in a similar business context and can be directly attributable to the completion of the Approved Project Activities included in the project agreement. These costs must be determined in accordance with the Recipients' cost accounting practices and applied consistently over time. The cost accounting system should clearly establish an audit trail that supports all costs claimed.

### Affiliated Persons Clause

Affiliated Persons are to be understood and treated as defined in the Income Tax Act, which includes but is not limited to; two or more entities that have similar ownership personnel; or entities that have a working business relationship.

In the case of Eligible Costs for goods or services incurred and paid with an Affiliated Person, the amount of the costs incurred and paid must:

- a) not exceed their Fair Market Value;
- b) in the case of a good or service for which there is no Fair Market Value, the amount must not exceed the Fair Market Value of Similar Goods; or
- c) in the case of a good or service for which there is neither a Fair Market Value nor Similar Goods, the amount must not exceed the sum of the applicable Direct Costs with Indirect Costs (Overhead) at the rate stipulated by this Agreement, plus five percent (5%) profit.

**Note:** It is important for Recipients', from the outset, to self-identify any related parties or Affiliated Persons who will be contracted to provide goods or perform services for completion of Approved Project Activities. For wholly owned subsidiaries of the Recipient's completing Approved Project Activities, its Eligible Costs incurred and paid will be claimed by the Recipient on their behalf and costs are to be treated as if the wholly owned subsidiary is one of the Recipients.

## Reporting Responsibility

It is the participant's responsibility to provide financial records, costing methods, management estimates and legitimate business causes to support the claimed costs.

## Eligible Cost Activities

Eligible Costs will generally include expenditures related to the following activities:

- a) Industrial research, including activities related to the discovery of new knowledge that aim to support the development of new technology-driven products, processes or services at early-stage technology readiness levels; and
- b) Large-scale technology demonstration, including the advancement and development of new technologies into product-specific applications at mid-to-late-stage technology readiness levels.

## Eligible Cost Categories

In performing the Approved Project Activities, Eligible Cost categories may include the following:

- A. **Direct Labour:** meaning the portion of gross wages or salaries incurred and paid by the Recipients for eligible activities which can be specifically identified and measured as having been performed and which is so identified and measured consistently by the Recipients' cost accounting system. The cost accounting system should sufficiently prove the hours worked by employees are directly related to the Approved Project Activities.
- B. **Subcontractors and Consultants:** meaning the costs of subcontracts or consultants incurred and paid for Approved Project Activities are the costs for work or services performed by an external third party, which can be specifically identified and measured as having been incurred and paid for the Approved Project Activities. The Recipients cannot be a Recipient and a Subcontractor or on the same Eligible Project.

The indirect cost (overhead) rate calculation for the Recipients does not apply to bona fide subcontractors and consultants.

- C. **Direct Materials:** meaning the cost of materials which are incurred and paid and can be specifically identified and measured as having been processed, manufactured, and used in the performance of the Approved Project Activities.
  - Materials purchased solely for the activities of the project shall be at the net laid down cost to the Recipients, net of any sale taxes and after any discounts offered by the suppliers.
    - Materials issued from the Recipients' general stocks shall be measured in accordance with the material pricing method consistently used by the Recipients.

- Direct Materials include, but are not limited to, items such as circuit boards, cables and metals, essentially any raw material that is “used up” by completing Approved Project Activities.
- D. **Equipment:** meaning the capital cost of equipment, which is incurred and paid and can be specifically identified as having been purchased for Approved Project Activities. Capital equipment purchases must be pre-approved by FABrIC administrators and by ISED in advance of the equipment purchase. Equipment costs include but are not limited to, the purchase of equipment necessary for the project, costs to alter or modernize the equipment, costs to get the equipment into working order, and shipping costs.
- E. **Other Direct Costs:** meaning those eligible direct costs, not falling within the categories of direct cost mentioned above, but which are incurred and paid, and can be specifically identified and measured as having been incurred and paid by the Recipients for the Approved Project Activities and which are so identified and measured consistently by the Recipients’ costing system.

## Indirect Costs (Overhead)

Indirect costs (overhead) are those costs which, though necessarily having been incurred and paid by the Recipients for the conduct of the business in general, cannot be identified and measured as directly applicable to the carrying out of the Approved Project Activities.

Overhead costs will be calculated using a proxy method. In the proxy method, indirect costs are calculated at 55% of the direct labor costs to a maximum of 15% of the total project eligible expenses. The items listed below include items that are included in the proxy method.

**Option:** In the case of Recipients with high Subcontractors and Consultants costs or low direct labour costs, indirect costs (overhead) thresholds calculated to a maximum of five percent (5%) on eligible Subcontractors and Consultants costs, but no more than fifteen percent (15%) of total Eligible Supported Costs may apply. Such thresholds would be calculated for each Recipient and each individual Eligible Project if more than one Eligible Project is selected for a Recipient.

- a) Indirect materials and supplies consumed by the project, including but not limited to, supplies of low-value, high-usage and consumable items, such as paintbrushes and safety supplies, which meet the definition of direct material costs but for which it is commercially unreasonable to account for their costs in the manner prescribed for direct costs. Costs such as stationery, office supplies, postage and other necessary administration and management expenses, small tools, such as ladders, drills, paint sprayer, and general inventory build-up.
- b) Indirect labour, administrative support, including but not limited to the remuneration of executive and corporate officers, general office wages and salaries, clerical expenses, HR, accounting/finance staff, overtime premiums, bonuses, all types of benefits paid by employer, for example, CPP, EI, fringe benefits, medical benefits, dental benefits, pension benefits and other taxable benefits.

Administration costs spent on the following activities are considered an indirect cost:

- i. review and approval of documents,
- ii. oversight,
- iii. quality review,
- iv. strategic guidance,
- v. participation in all-staff meetings,
- vi. professional development,
- vii. performance reviews and any costs associated with interactions with government including application,
- viii. claims,
- ix. amendment, and
- x. audit and reporting communications.

Notwithstanding the above, indirect costs (overhead) will not include those direct labour costs described above.

- c) Indirect building costs including, but not limited to, snowplowing costs, public utilities expenses of a general nature including, but not limited to, power, HVAC, lighting, and the operation and maintenance of general assets and facilities.
- d) Expenses such as property taxes, rentals of equipment and building (not covered as part of direct costs) and depreciation costs.
- e) Indirect equipment costs including, but not limited to, maintenance cost of assets, office equipment, office furniture, etc.
- f) Other indirect costs including, but not limited to, daily commutes, unreasonable modes of transportation, general software and licenses, and travel insurance.

## Ineligible Costs

Ineligible Costs incurred and paid are not eligible for FABrIC contributions, regardless of whether they are reasonably and properly incurred and paid in the carrying out of the Approved Project Activities.

- a) Any form of interest paid or payable on invested capital, bonds, debentures, bank or other loans together with related bond discounts and finance charges; the interest portion of the lease cost that is attributable to cost of borrowing regardless of type of lease.
- b) Legal, accounting and consulting fees in connection with financial reorganization (including the set-up of new not-for-profit organizations), security issues, capital stock issues, obtaining of licenses, establishment, and management of agreements and prosecution of claims against the Minister. Such legal costs associated with developing the agreement template and in connection with obtaining patents or other statutory protection for FABrIC-related intellectual property are considered eligible.
- c) Losses on investments, bad debts, and expenses for the collection charges.
- d) Losses on other projects or contracts.
- e) Federal and provincial income taxes, goods and services taxes, value added taxes, excess profit taxes or surtaxes and/or special expenses in connection with those taxes, except duty taxes paid for importing is eligible cost.
- f) Provisions for contingencies.
- g) Premiums for life insurance on the lives of officers and/or directors where proceeds accrue to any of the project participants.
- h) Amortization of unrealized appreciation of assets.
- i) Depreciation of assets paid for by FABrIC.
- j) Fines and penalties.
- k) Expenses and depreciation of excess facilities.
- l) Unreasonable compensation for officers and employees.
- m) Product development or improvement expenses not associated with the work being performed under the approved project.

- n) Advertising, except reasonable advertising of an industrial or institutional character placed in trade, technical or professional journals for the dissemination of information for the industry or institution;
- o) Entertainment and catering expenses (including, but not limited to, alcohol, non-travel expenses).
- p) Donations.
- q) Dues and other memberships other than regular trade and professional associations;
- r) Extraordinary or abnormal fees for professional advice in regard to technical, administrative, or accounting matters.
- s) Selling and marketing expenses associated with the products or services, or both being developed in the project.
- t) In-kind costs.
- u) Recruiting fees.

Any costs of any kind incurred prior to signing of the project agreement are ineligible.

FABrIC participants may seek to collaborate with Canadian federal departments and agencies. This may occur in order to leverage capacity across sectors, transfer knowledge, and further shared objectives. If this is planned, contact FABrIC administrators during proposal preparation and well in advance of incurring any such expenditures, for pre-approval of any such expenditures.