

Research and Development Tax Relief

What is R&D tax relief?

In April 2000 Research & Development tax relief was introduced for Small and Medium-sized Enterprises. For Large Companies, the Research and Development Expenditure Credit (RDEC) was introduced in April 2013 and has now replaced the previously existing Large scheme. The relief is processed through the corporation tax system and can be claimed by companies that are undertaking qualifying research and development (R&D).

How does R&D tax relief work?

R&D tax relief for SMEs works by enhancing qualifying expenditure which gives the company an additional deduction. This additional deduction will either reduce a company's taxable profit or create or extend a loss. Subject to certain rules, HMRC allows the loss not exceeding the qualifying expenditure and the enhancement to be surrendered for a payable tax credit. Therefore, by claiming R&D tax relief, a company will either reduce their Corporation Tax liability or receive a payable tax credit.

For large companies, the RDEC scheme allows a taxable credit at a rate of 13%. For loss making companies the tax credit is fully payable subject to certain restrictions.

Who qualifies?

UK registered companies undertaking qualifying R&D can claim. As this is a Corporation Tax relief, sole traders or partnerships which are taxed under Income Tax rules do not qualify.

To qualify for R&D tax relief a company must:

- ✓ be incorporated in the UK or have a UK permanent establishment that falls within the charge to UK corporation tax
- ✓ undertake qualifying R&D projects
- ✓ have spent qualifying expenditure on those projects.

What is a SME for these purposes?

A company is a SME for these purposes if it and its partner and / or linked enterprises have less than 500 staff and turnover of less than €100 million or a balance sheet total of €86 million.

What is a qualifying R&D project?

A R&D project qualifies if:

- ✓ it advances, or tries to advance, overall knowledge or capability in a field of science or technology
- ✓ involves scientific or technological uncertainties that competent professionals cannot readily resolve
- ✓ it includes qualifying expenditure as permitted by statute.

What expenditure qualifies?

The categories of qualifying expenditure are:

- ✓ Staffing Costs
- ✓ Consumable Items – items used up or transformed in qualifying R&D projects
- ✓ Software – licences for software directly, wholly or partly employed in the R&D activity
- ✓ Externally provided workers – staff provided through an external agency
- ✓ Subcontracting – there are variations in the rules between the two schemes.

Comparison of the Schemes.

The SME Scheme is considerably more beneficial than the RDEC. For £100,000 of qualifying expenditure the maximum benefit that can be gained under the SME Scheme is £33,350 (£100,000 enhanced at 230% and surrendered at 14.5%). Whereas under the RDEC Scheme, the maximum benefit that can be gained is £10,530 (£100,00 * 13% = £13,000 taxed at 19% giving £10,530).

Impact of State Aid.

The SME Scheme is generous enough to be a notifiable State Aid and a company cannot claim under the SME Scheme if it is receiving any other notifiable State Aids for the same R&D project. Where a notifiable State Aid grant has been received then it would still be possible to claim under the RDEC Scheme. It is also not possible to claim under the SME Scheme for subsidised expenditure though again it would be possible to claim for the non-subsidised expenditure. The expenditure covered by the subsidy can be claimed under the RDEC Scheme.

How is R&D tax relief claimed?

R&D tax relief is claimed through the Company Tax system which means that claims must be made in a Company Tax Return or an amendment to a Company Tax Return. A claim can be made if it is possible to amend the Company Tax Return. Usually two years after the accounting date.

Further guidance can be found at:

SME <http://www.legislation.gov.uk/ukpga/2009/4/part/13>

RDEC <http://www.legislation.gov.uk/ukpga/2013/29/schedule/15/enacted>

HMRC manual: Corporate Intangibles Research and Development Manual (CIRD)

<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird80000>

Useful contacts:

HMRC's Incentives and Reliefs Team: RD.IncentivesReliefs@hmrc.gov.uk

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The author

Andrew Alton was a Research and Development Specialist with HMRC from 2008 to 2018, the culmination of an almost 30-year career as a Tax Inspector.

If you would like specialist support with the process of claiming Research and Development tax relief, have questions regarding the legislation or perhaps have encountered issues with your current claim then please do get in touch. Andrew can be contacted via the following:

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