



What are the changes to overseas R&D?

Under the current rules for both R&D schemes; the SME scheme and the RDEC scheme, companies are able to claim relief on R&D activity that is conducted overseas. Claimants under the RDEC scheme are restricted on certain subcontracted costs, but the location of where the work is performed on both schemes is irrelevant.

However, from April 2023, this will change. Where companies subcontract R&D activity to a third party, they will in future only be able to claim relief for that expenditure where that third party performs the work within the UK. The rules for subcontracting will not otherwise change under both schemes, where companies incur expenditure on payments for externally provided workers (EPWs), they will only be able to claim relief on such expenditure where those workers are paid through a UK payroll.

This is a pretty significant departure from the old rules and one which will require a good number of companies to rethink their R&D strategy. We assist many companies which utilise overseas R&D services and historically, the costs associated with this activity has always been allowable.

These new rules will apply to a company's first accounting period which begins on or after 1 April 2023. For example, if you are a business with a 30 September year end, the new rules will only apply for the year ended 30 September 2024 onwards. To be absolutely clear, only the overseas costs that are spent after 1 October 2023 are restricted.

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There is one final important point to note.

Where a company incurs consumable costs from overseas (for example if a company purchases raw materials which are utilised in the R&D process) – such costs will not be affected by the new rules.

The company will also still be able to claim R&D tax reliefs on the costs of software and payments for data and cloud sourced overseas, as these are considered inputs to activity in the UK.

If you would like help or have any questions, please contact us to speak to a member of our dedicated team, call us on **01753 888 211** or email **info@nhllp.com**