

RESEARCH AND DEVELOPMENT (R&D)



Research and development (R&D) tax relief rewards companies for innovation. It is an unmissable opportunity to claim either a reduction in corporation tax or, for loss making companies, a payable tax credit.

Most claims are for companies operating in the ordinary course of their business. This may include developing new products, processes or services or duplicating existing products and processes in an appreciably improved way. The development does not have to be blue sky innovation, as long as the work being undertaken attempts to resolve some form of technical or scientific uncertainty.

Practical Steps

- Identify qualifying R&D activity with a complimentary eligibility check where we can confirm whether a company is eligible to make a claim.
- Identify and maximise the qualifying R&D costs.
- Prepare the necessary paperwork in an HM Revenue & Customs (HMRC) friendly format.
- Submit and liaise with the relevant R&D unit at HMRC to secure acceptance of the claim.

Tax Implications

The scheme works by giving additional corporation tax relief. The current rate of extra relief on qualifying expenditure for small and medium sized businesses (SMEs) is 130%.

If a company spends £100,000 on qualifying R&D, an additional deduction of £130,000 is given against taxable profits. This means that a claim which identifies £100,000 of expenditure benefits a company by reducing its tax bill by £24,700 (at a corporation tax rate of 19%).

When a company is in a loss making position, the R&D tax credit allows the company to ‘surrender’ some or all of the loss to HMRC, in return for a 14.5% payable cash credit. In the above scenario, the company would surrender up to £230,000 of losses in return for a £33,350 payable cash credit (i.e. 14.5%).

Put simply, this gives a benefit of somewhere between 24.7% and 33.35% of the qualifying expenditure identified, depending on the company’s tax position. For large companies, the scheme gives a benefit of 9.72%

FAQS

What counts as qualifying R&D activity?

HMRC’s definition of R&D is purposefully broad. Regardless of size or sector, if a company is taking a risk by attempting to “resolve scientific or technological uncertainties” then it maybe carrying out qualifying activity. This could include:

- creating new products, processes or services.
- changing or modifying an existing product, process or service.

Can I claim for aborted R&D projects?

Yes! R&D doesn’t have to have been successful to qualify. The fact that a project has been aborted is often a good indicator that R&D has taken place.

How will I know if I qualify for R&D tax relief?

If you’re asking yourself this question, take comfort in the fact that most of the companies we deal with find themselves in this position. This is where a conversation with us is essential. If some kind of improvement has been attempted and a technical uncertainty can be demonstrated then there is a good chance the company will qualify. One point to note which often comes up in conversation with clients is whether simply improving the state of knowledge within the business qualifies for R&D tax relief. It’s important to note that the company has to be furthering the knowledge in a field of science or technology and not just it’s own knowledge.

Can I claim if I’m a sole trader?

Unfortunately, R&D tax relief only applies to companies.

What do HMRC need to approve a tax claim?

We have developed a reliable reporting strategy that provides HMRC with everything they need to approve a claim. This involves a comprehensive technical report outlining the projects which meet the qualifying criteria for relief as well as a detailed financial report which offers a breakdown of the costs included in the claim.

I’ve never claimed R&D tax relief before. Can I claim retrospectively?

Making a retrospective R&D tax claim follows the normal rules for amending any corporation tax return. Companies can claim up to two years previous.

I am an SME and have received grant funding – can I still claim R&D tax relief?

The simple answer to this question is Yes! The interaction of grants and R&D tax relief can be complicated, but we've summarised the most common situations below.

I've received a grant which is notified state aid

Common grants which fall under this category are Smart Grants and any grants which fall under the General Block Exemption Regulations (GBER). If you have received a notified state aid grant which is either specific to the project you want to claim R&D tax relief on or is non-specific (i.e. it covers your general R&D activity), then any claim for R&D tax relief will have to be made under the less generous large scheme. However, if your grant is project specific, it's important to note that other R&D projects which have been exclusively funded by the company will be eligible for the SME rate.

I've received a grant which is not a notified state aid

This situation is slightly better than the one outlined above. Common non-notified state aid grants include Horizon 20/20, FP6 or FP7 and de minimis grants. If you have received one of these grants, then the amount which has been received as funding will need to be claimed under the less generous large company scheme. However, any expenditure which the business itself has funded will be eligible for the SME rate of R&D tax relief. Many Horizon 20/20 grants will only fund up to 40% of the total project costs, meaning that the remaining 60% could be eligible for the generous SME rate of R&D relief.

What costs can be claimed?

HMRC have six clearly defined categories of qualifying expenditure. These are: staff costs, subcontracted R&D costs, Externally Provided Workers, consumables, software and certain energy costs.

Can my claim trigger an enquiry by HMRC?

The R&D tax claim is just another part of your corporation tax return and normal enquiry window rules apply. We have extensive experience in dealing with enquiries concerning R&D tax claims. This gives you peace of mind, knowing that your claim will be handled by advisers with years of experience in dealing with HMRC.

I've made a claim and I'm expecting money back. How long will it take?

If your claim is for an SME R&D tax credit, HMRC aim to repay monies due within 28 days. However, this is not a statutory requirement and many factors result in this target being missed. HMRC's R&D units are extremely busy, particularly in December, March and September. Often, claims can take 3 or 4 months to process.

What is the definition for an SME or large company?

There are two schemes. One scheme is for small and medium sized enterprises (SMEs) and the other scheme is for large companies. Generally speaking, an SME is a company with:

- fewer than 500 employees AND
- annual turnover less than €100 million Euros OR
- total assets on the balance sheet totalling less than €86 million Euros

A large company is one that does not meet the definition of an SME.

Broadcast

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If you would like more information on qualifying for R&D relief, we would be delighted to discuss this further with you. Please contact a member of our dedicated tax team, call us on **01753 888211** or email **info@nhllp.com**.