



Relief and Development (R&D) relief is a corporation tax relief for expenditure on qualifying R&D expenditure. There are different types of relief depending on the size of your company.

## Qualifying R&D projects

Relief is only available for projects that meet the definition of R&D for the purposes of the relief. The work must be part of a specific project to make an advance in science or technology. Work towards advances in a social science, such as economics, or a theoretical field, such as pure maths, are not eligible for the relief.

The project must relate either to your company's existing trade, or to one that you intend to start up based on the results of the R&D.

You will need to be able to show how your project:

- looked for an advance in the science and technology;
- had to overcome uncertainty;
- tried to overcome uncertainty; and
- could not easily be worked out by a professional in the field.

The project may research or develop a new process, product or service, or it may improve an existing one.

It should be noted that your project must aim to create an advance in the overall field to qualify, not just an advance for your own business.

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## Types of R&D relief

There are different types of R&D relief:

- SME R&D relief; and
- the Research and Expenditure Credit.

The relevant relief depends on the size of your company.

## SME R&D relief

If you have qualifying R&D expenditure, you will be eligible for small and medium sized enterprises (SME) R&D relief if:

- you have less than 500 staff; and
- your turnover is less than 100 million euros and your balance sheet total is less than 86 million euros.

To work out whether you are an SME you need to take account of partner and linked enterprises.

The relief provides an enhanced deduction. For expenditure incurred on or after 1 April 2023, companies eligible for SME R&D relief are able to deduct an extra 86%. This means that the total deduction is 186% of expenditure. For expenditure incurred prior to 1 April 2023, the additional deduction is 130% -- a total deduction of 230%.

The effective rate of relief depends on the rate at which your company pays corporation tax.

For a company paying corporation tax at the rate of 19%, from 1 April 2023, the relief provides corporation tax relief for the expenditure at a rate of 35.34%. Each £100 of qualifying expenditure provides a deduction of £186 and a corporation tax saving of £35.34 (£186 @ 19%).

If you pay corporation tax at the rate of 25%, you will receive corporation tax relief at the rate of 46.5% (25% of 186%).

Where the rate at which you pay corporation tax is between 19% and 25%, the effective rate of relief is between 35.34% and 46.5%.

Prior to 1 April 2023, the effective rate of relief was 43.7% (19% of 230%).

If your company is loss making, you can claim a repayable tax credit. For expenditure incurred on or after 1 April 2023 this is at a rate of 10% of the surrenderable loss. Prior to 1 April 2023, the tax credit was worth up to 14.5% of the surrenderable loss. Legislation is to be introduced in a future Finance Bill to increase the repayable tax credit to 14.5% for loss making companies whose R & D expenditure is at least 40% of their total expenditure.

You will have a surrenderable loss if you obtain the enhanced deduction for your expenditure and your company makes a trading loss in the period (or is deemed to have made a loss).

The unrelieved trading loss is the amount of the loss less the aggregate of the relief that is obtained or (could be claimed) against profits of the same accounting period, any other relief obtained in respect of the loss and any amount surrendered to group or consortium members.

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The repayable tax credit is capped at £20,000 plus 300% of the company's relevant expenditure on workers for payment periods ending in the accounting period. The company's relevant expenditure on workers is their PAYE and National Insurance liabilities for the payment period. Statutory payments and child and working tax credit are disregarded when computing the cap.

The relief must be claimed in the company's corporation tax return no later than two years from the end of the accounting period to which it relates.

## **R&D Expenditure Credit (RDEC) scheme**

Under the RDEC scheme, relief for qualifying expenditure on R&D is given as a taxable payable tax credit rather than as an enhanced deduction, it is calculated as a percentage of the qualifying expenditure incurred in the relevant accounting period. For expenditure incurred on or after 1 April 2023, the percentage is 20%. For expenditure incurred prior to that date, the percentage is 13%.

The credit is first used to discharge the corporation tax liability.

- The balance may be subject to an adjustment to reduce the amount available to a net of tax amount which can be used to discharge future corporation tax liabilities.
- Any remaining balance is capped at the level of the PAYE and National Insurance liabilities in respect of R & D staff. There is no restriction for the amount of time spent on R&D activities. Any amount that exceeds the cap is carried forward and treated as an expenditure credit for the next accounting period.
- The amount remaining as a payable credit discharges corporation tax liabilities for any other period.
- Companies that are a member of a group can surrender any amount remaining for a corresponding accounting period.
- The payable credit element is used to discharge any other outstanding tax liabilities that the company has.
- The company must pass a 'going concern test'.

Any amount that remains after applying the above is paid to the company in cash.

## **Claiming the RDEC**

The RDEC must be claimed in the company tax return no later than two years from the end of the accounting period to which the claim relates. Claimants must also complete CT600L when making their claim.

A SME may be able to claim the RDEC if they are unable to claim relief under the SME scheme.

## **Subcontracted R & D**

Under the SME scheme, payments made to another person who has been subcontracted to undertake activities that are part of the company's relevant R&D counts as qualifying expenditure.

However, for the RDEC scheme, expenditure on R&D contracted to another person is not generally allowable.

## **We can help**

We can help you determine whether your R&D expenditure qualifies for tax relief and the nature of that relief, and help you make a claim.

If you would like help or have any questions on any of the topics discussed in this broadcast, please contact us to speak to a member of our dedicated team, call us on **01753 888211** or email **info@nhllp.com**