

## Tax Insights

# R&D Tax Relief

Do you know what's on the table?

Uncertainty is rarely favourable.  
Yet did you know it could lead to  
an advantageous tax relief?

If you're a UK company carrying out a project surrounded by uncertainty regarding scientific or technological matters, an R&D tax break could be just what you need.

When talking tax reliefs, it's always best to know what's available to you. Only then can you realise all the opportunities and take full advantage of them.

Read on to discover some key points you need to know about qualifying for R&D tax relief and how much your company can realistically expect to save.

## What is R&D tax relief?

R&D tax relief is a UK Government initiative aiming to encourage companies to invest more in the development of innovative technologies and processes.

Qualifying companies can expect to receive up to 26% of their research and development costs back in the form of tax refunds or tax savings.

Any company can apply – as long as they can prove they're involved with a project that involves scientific and technological uncertainty, or can advance scientific or technical knowledge.

But what does 'scientific and technological uncertainty' actually mean?

In the eyes of the taxman, this kind of uncertainty exists when knowledge of whether something is possible, or how to achieve it in practice, is not readily available by a competent professional working in the field.

An advance in science or technology means an advance in overall knowledge or capability in that field (and not a company's own state of knowledge or capability alone).

## What tax reliefs are available?

If you're considering R&D tax relief, you'll need to think about the size of your company. The scheme works differently for SMEs and larger companies. If you're unsure about whether you classify as a SME, ask yourself these questions:

- Do you have more than 500 employees?
- Is your annual turnover over €100 million or balance sheet over €86 million?

If you answered 'no' to both questions, you will be classified as an SME.\*

\* To be classified as an SME, you need to include the figures relating to all companies in a group.

## What a tax deduction looks like for SMEs

If you're an SME, you'll be able to increase the tax deductions that you receive against profits on qualifying revenue expenditure by 130%.

For example, qualifying salary costs of £100,000 would be eligible for a further tax deduction of 130%, meaning that a total of £230,000 is given as a tax deduction.

Where the enhanced deductions create, or increase, losses for tax purposes, that element of the loss can be surrendered for a payable tax credit from HMRC - helping you with your cash flow.

The tax credit is calculated as 14.5% of the loss surrendered. From 1 April 2020, the amount of tax credit that can be received will be restricted to three times the company's total PAYE and NICS Liability for that year.

## What a tax deduction looks like for larger companies

R&D tax relief under the large company scheme is based on the SME scheme, but with a number of modifications.

If you're a larger company, under the current R&D Expenditure Credit (RDEC) regulations, a taxable credit of 11% (or 12% from 1 January 2018) can be claimed if you meet R&D qualifying criteria.

It's worth bearing in mind that there are strict rules in place as to how the credit is used and that it's less flexible with comparable SME credit.

## Which costs qualify?

Currently, there's no minimum level of expenditure that has to be incurred for R&D reliefs to be available.

However, to qualify, your costs will need to fall in line with revenue expenditure associated with the following:

- Staffing costs (including pension contributions, but excluding benefits in kind) for those directly involved in R&D

- 65% of subcontracted R&D costs (SME only)
- 65% of externally provided workers
- Consumable items
- Software

You may also qualify for a separate R&D allowance meaning you could potentially deduct 100% of qualifying R&D capital expenditure against profits.

Crucially, this is in addition to any other capital allowances that might be available under normal provisions, such as the Annual Investment Allowance.

## It's worth keeping in mind...

There are certain factors that can affect your entitlement to R&D tax relief. Ensure your claim runs smoothly by following these guidelines:

### Will grant income affect my claim?

Depending on whether the grant income is a Notified State Aid or not will determine if relief is available under the RDEC scheme instead or, indeed, if any relief is available at all under either scheme.

### What about sub-contractors?

If R&D is subcontracted to a UK subsidiary from its non-UK parent, relief is only available under the large company scheme, regardless of the group's size.

### Can I backdate R&D tax relief claims?

You can claim R&D tax relief up to two years following the end of the financial year to which it relates. So, if you think your company is eligible, contact us as soon as possible to ensure you don't miss out.

### Our project failed. Can we still claim for R&D?

Your R&D project needn't necessarily be successful or complete to qualify for relief.

A failed project, for example, which eliminates a particular line of enquiry, may still qualify as R&D for tax purposes since the pre-requisite of uncertainty surrounding the project is even more apparent.

Our expert team can help you apply for R&D tax relief.

To find out more, please contact us.



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