

## Research & Development (R&D) Tax Relief



The two key criteria in determining which companies are eligible for R&D tax credits are ‘innovation’ and ‘uncertainty’. A company commencing a project which it is uncertain the objective can be achieved and that is innovative in nature is likely to qualify for R&D tax relief.

This enhanced tax relief was introduced by the Government to encourage R&D projects from companies operating within the UK. Approximately £1.5bn per year has been set aside for companies deemed to be undertaking qualifying R&D activities.

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### A little bit more about R&D tax allowances

- R&D generally covers any project that ‘seeks an advance in science or technology through the resolution of scientific or technological uncertainties’
- It does not matter whether the project achieves its objectives
- The tax reliefs are only available to companies
- The relief provides an additional tax deduction in calculating a company’s taxable profits for a period
- For loss-making SME companies, the additional tax deduction can be converted into a repayment from HM Revenue and Customs.
- Different rates exist for SMEs and large companies
- For large companies an ‘above the line deduction’ can be made to reduce the profits subject to Corporation Tax.

A common misconception is that R&D tax credits are limited to a company developing something completely new and from scratch, however R&D also includes:

- Developing a process or product that already exists in the industry, but where the information to resolve the technological uncertainty is not readily available to them; and
- Making an improvement to an existing product or process, or duplicating an existing product in an appreciably improved way. For example, exploring new cost effective materials that will perform to the same or better technical specification as an available product.

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### What expenditure qualifies for R&D relief?

- SMEs
  - Tax relief on 230% (225% pre 1 April 2015) of the qualifying expenditure: the expenses in the accounts will be an allowable deduction, together with an additional deduction of 130% of these costs in the company's tax computations
  - A claim can only be made if the company is a going concern and is not in either administration or liquidation at the time of the claim
  - For loss making SMEs, the additional losses created by the R&D claim can be surrendered in exchange for a tax credit from HMRC. As of 1 April 2014, the rate of tax credit available is 14.5%.
- Large companies
  - An additional 30% is available, resulting in 130% tax relief on the qualifying costs incurred
  - For qualifying expenditure incurred from 1 April 2014 an above the line deduction can be made.
  - The above the line deduction will become compulsory from April 2016
  - The amount of tax credit received will be subject to a cap, based on the PAYE and NI incurred.

### Definition of an SME

- Less than 500 full-time employees during a given year; and either
  - Annual turnover < €100m; or
  - Balance Sheet total < €86m
- These limits apply on a group-wide basis and so related companies are taken into account.

### How to make a claim

- The claim must be included on the company's Corporation Tax Return
- It should be made within 2 years of the end of the accounting period in question
- It is best practice to include an R&D report as an accompaniment to the Corporation Tax Return

R&D is a very generous tax relief. A claim can mean a significant reduction in your Corporation tax bill or even a repayment of a tax credit if the company has generated losses. We are specialists in preparing R&D reports and associated calculations for submission to HM Revenue and Customs.

Please contact Vicky at VSP Accountancy Services Limited 07745703730 if you would like any more information.

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