



Research & Development Tax Credits

OVERVIEW

Research and Development (“R&D”) remains a key driver to the success of many businesses. The UK government continues to provide generous tax reliefs for R&D where a business undertakes a project seeking an advancement in overall knowledge, or enhanced capability in a field of science or technology.

Recent improvements to the R&D Tax Credit Regime have resulted in a significant increase in the value of R&D Tax Credits, including new rules for larger businesses to claim a cash repayment as an alternative to set off against future corporation tax liabilities.

Although there is increased general awareness, R&D Tax Credits remain an under-claimed relief, both in the number of businesses making claims and in scope.

R&D Tax Credits are not restricted to particular industries. If a company is undertaking some form of innovation, including innovation in support functions as well as in products and services, then qualifying R&D may be taking place. The tax benefits of any claim should not therefore be overlooked.

Using experienced tax professionals, alongside experts in their specialist fields of science or technology, means we have an exceptional success rate in agreeing claims with HMRC. Industry sectors in which we have worked with companies making claims include motorsport, financial services, software, life sciences and high technology production and manufacturing.

What are the benefits?

There are three schemes in operation: the small or medium sized enterprise (“SME”) scheme, the large company scheme, and an alternative large company scheme in the form of the “R&D Expenditure Credit” (“RDEC”). From 1 March 2016, the RDEC scheme will become mandatory, and the existing large company scheme will cease. Until then, large companies have the choice between the RDEC and the large company scheme.

(a) The SME scheme

An SME is as an entity that, together with any group companies, has fewer than 500 employees and either:

- an annual turnover not exceeding €100 million, or
- assets on the balance sheet not exceeding €86 million.

From 1 April 2015, SME’s can claim a ‘super deduction’ of 230% (currently 225%) of their “qualifying” R&D spend. Therefore for every £100 of expenditure, £230 of tax relief is given. For a company making profits, this equates to tax relief of 46% of the spend costs (assuming a corporation tax rate of 20%). For a company making losses, the super deduction can be “surrendered” for a cash repayment of 14.5% of the amount surrendered. This equates to a refund of over 33p in every pound of R&D spend.

(b) The ‘old’ large company Scheme

For non-SMEs, a claim under the large company scheme will result in a 30% uplift in qualifying costs. Therefore for every £100 of R&D spend, £130 may be claimed as a deduction against profits. For a large company paying tax at a rate of 20%, this equates

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to an additional saving of £6 for every £100 spend. But there is no repayment mechanism.

(c) The 'new' RDEC

RDEC (or what was once known as the 'above the line' credit) will become mandatory for large companies from 1 April 2016, but can be opted into before then.

The RDEC works by giving a tax credit of 11% (from 1 April 2015) of the actual R&D spend of large companies. The credit is taxable but, for a company paying tax, the credit is automatically offset against the company's tax liability. The effective tax relief is £8.80 for every £100 spend (assuming a corporation tax rate of 20%) compared to £6 under the old scheme.

Any tax credit not used to offset a tax liability (so where the company is making losses) can be repaid directly to the company.

What R&D activity qualifies?

The R&D activity must seek to achieve an advance in science or technology through the resolution of a scientific or technological uncertainty. In broad terms, the work must be aimed at producing knowledge or a product new to the general knowledge contained within that field of activity or to appreciably improve an existing product.

Essentially, if the solution is not readily obvious to an appropriately qualified and competent professional, then it is likely that the R&D activity will qualify for relief.

What expenditure qualifies?

Only certain categories of R&D expenditure qualifies:

- staffing costs (including agency costs);
- software and consumables used in the R&D;
- subcontracted expenditure (for SMEs);
- certain indirect expenditure.

There are also generous allowances available for capital expenditure incurred for the purpose of conducting qualifying R&D activity, which give 100% relief in the year of spend.

How to make a claim

Claims must be made as part of the corporation tax return. There is a strict time limit of two years from the end of the relevant accounting period, beyond which claims may not be made. If the company has already submitted its corporation tax return, an amended return can be submitted including the R&D claim, but again only within the normal two year time limits.

How can Rawlinson & Hunter help?

Rawlinson & Hunter can assist in identifying whether a project will qualify for R&D relief, and can prepare a detailed R&D tax report for submission to HMRC in order to claim the relief. We will assign a member of our team to liaise directly with HMRC on the R&D claim, and they will work to resolve any queries as they arise, and seek to secure the success of the claim.

Many companies miss out on claiming R&D relief because they do not fully identify those activities or costs which qualify for the relief. If you would like to find out whether and to what extent your company and activities may be eligible, or you wish to reassess your current claims process, please contact your usual R&H contact, Craig Davies or Andrew Shilling.

The information contained in this bulletin does not constitute advice and is intended solely to provide the reader with an outline of the provisions. It is not a substitute for specialist advice in respect of individual situations.

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