

Research and Development

Research and development (R&D) by UK companies is being actively encouraged by Government through a range of tax incentives.

The incentives are only available to companies and include:

- increased deduction for R&D revenue spending and
- a payable R&D tax credit for companies not in profit.

The relief

The R&D revenue relief increases the amount a company can obtain tax relief on to more than the normal 100% revenue deduction. This relief is 230% for expenditure incurred by a SME on or after 1 April 2015 (previously 225%). Large companies are subject to a different regime not considered here.

Alternatively a SME may claim a payable R&D tax credit for an accounting period in which it has a surrenderable loss. For expenditure incurred on or after 1 April 2014 the amount of payable tax credit that a company is entitled to for an accounting period is 14.5% of the surrenderable loss for that period. For accounting periods ending on or after 1 April 2012 the R&D credit is no longer restricted to the PAYE/NIC liabilities of the company.

Example

The following is an example of the relief in operation.

Neuf Ltd is an SME and incurs qualifying R&D expenditure during the year to 31 March 2016 of £100,000.

Assuming Neuf Ltd is profitable it will be able to claim a deduction in respect of its R&D expenditure of £230,000. This will reduce its corporation tax liability by £46,000 (assuming a 20% rate), giving the company effective relief on the actual expenditure of 46%.

If, on the other hand, Neuf Ltd is making losses, the £230,000 attributable to the R&D expenditure can either be carried forward for relief against future trading profits or converted into a payable R&D tax credit. The rate of conversion is currently set at 14.5% so this would generate a payment to the company of £33,350 ($£230,000 \times 14.5\%$) which equates to 33.35% of the original expenditure.

Considerations

There are two main considerations to establish whether the reliefs for R&D are available. These are concerned with the activity and also the conditions relating to the expenditure incurred.

Is the activity qualifying R&D?

The first essential matter to determine is whether HMRC would accept that the particular activities constitute R&D.

Relief is available if a project seeks to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty and not simply an advance in its own state of knowledge or capability.

Furthermore it must be related to your company's trade either an existing one, or one that you intend to start up based on the results of the R&D.

HMRC guidance suggests when making the claim for relief that a company should answer the following questions, so they can see how your view of the definition applies to your project.

- What is the scientific or technological advance?
- What were the scientific or technological uncertainties involved in the project?
- How and when were the uncertainties actually overcome?
- Why was the knowledge being sought not readily deducible by a competent professional?

Please do get in touch if you would like advice on R&D so we can maximise the reliefs available.

Does the expenditure qualify?

The second consideration is to ensure the relevant tax conditions are met, the most important being:

- the expenditure must be from a qualifying revenue category and not be capital expenditure
- the spending must not be incurred in carrying out activities contracted to the company by another person
- the expenditure must not have been met by another person (if the R&D project is funded in whole or part by notified 'State Aid' such as a government grant, none of the spending on that project can qualify for R&D tax credits).

An alternative form of R&D relief may be available for expenditure restricted by the second or third of the above points which is not considered further in this factsheet.

The R&D does not have to be undertaken in the UK.

You must make a claim for R&D relief in your Company Tax Return. The normal time limit for making a claim is two years after the end of the relevant Corporation Tax accounting period.

Helping smaller companies

Following consultation, the government introduced in November 2015 a voluntary Advanced Assurance scheme for small businesses making their first claim. Successful applicants will receive assurance that HMRC will allow their first three years of R&D tax relief claims without further enquiry. In addition, there will be new bespoke guidance aimed at smaller companies and more direct communication between HMRC and companies that are already claiming, or thinking about claiming, R&D tax relief.

How we can help

If this is something that you would like to discuss in more detail, please contact us.