



A QUICK GUIDE TO R&D TAX RELIEFS

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INTRODUCTION

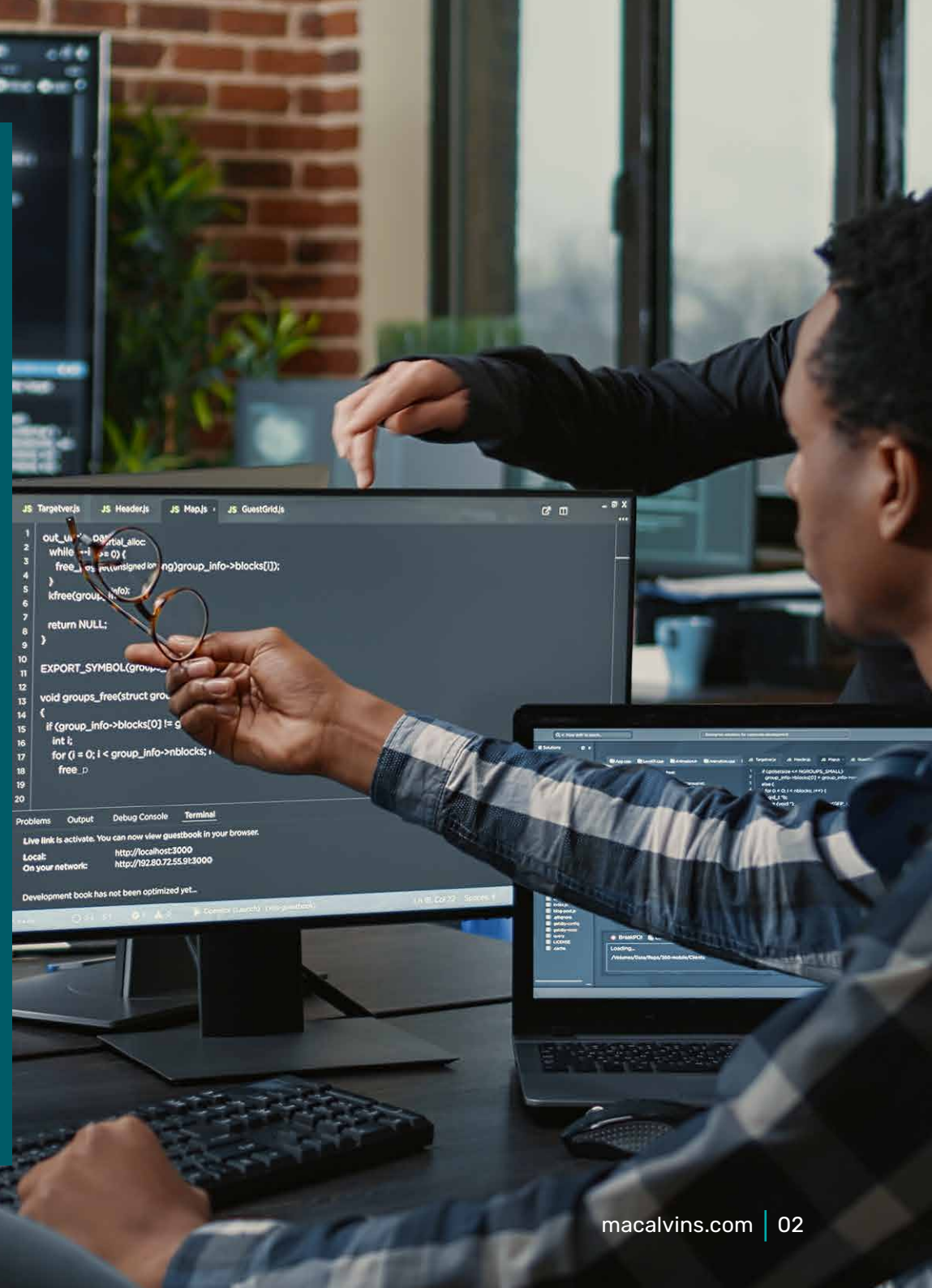
It is thought that billions of pounds of R&D tax relief has gone unclaimed in the UK – with upto 80 per cent of eligible businesses not having made a claim.

With so many companies missing out on this vital relief, we want to make sure you can make the most of this valuable tax credit.

In this guide, we aim to offer you:

- Straightforward definitions and explanations of the schemes
- Guidance on your R&D tax eligibility
- Details of qualifying costs
- Advice on how the claims process works for the small and medium-sized enterprises scheme (SMEs) and the Research and Development Expenditure Credit scheme (RDEC).

Our experienced tax team have assisted a large number of our clients in making successful claims, saving them millions of pounds, so why not find out how we can help you?



WHAT IS R&D TAX RELIEF?

The R&D Tax Relief Scheme was introduced in the UK to support, reward and encourage companies undertaking research and development (R&D).

To achieve this, it offers tax relief that reduces your company's Corporation Tax bill, or in some cases, will result in a repayable tax credit.

Not every business or project may be eligible for this relief, but many will.

What companies are eligible?

Small to medium-sized enterprises (SMEs) can claim R&D tax credits through the SME scheme. It is open to solvent registered companies with fewer than 500 staff, and a turnover of under €100 million or a balance sheet total of under €86 million.

Small or medium-sized enterprise (SME) R&D tax relief allows companies to either:

- Deduct an extra 130 per cent of their qualifying costs from their yearly profit, as well as the normal 100 per cent deduction, to make a total 230 per cent deduction; or
- Claim a tax credit if the company is loss-making, worth up to 14.5 per cent of the surrenderable loss.

As long as the company is carrying out eligible R&D projects it should be eligible to make a claim.

Companies with more than 500 staff or a turnover of over €100 million and a balance sheet total of over €86 million are classed as a large company under the scheme and can claim a Research and Development Expenditure Credit (RDEC) instead.

The RDEC is calculated at 13 per cent of your company's qualifying R&D expenditure and is taxable.

Smaller businesses can also make use of the RDEC scheme where they have been subcontracted to do work by a large company.

Depending on if your company is profitable or loss-making the credit may be used to discharge Corporation Tax liabilities or result in a one-off cash payment.





WHAT R&D PROJECTS ARE ELIGIBLE?

A business must first determine whether their R&D project is eligible before they consider claiming for their eligible expenditure.

This can sometimes be the hardest part of an R&D claim as it depends on several important criteria.

For your project to qualify you will need to show that it:

- Aimed to make an advance in an area of science and technology
- Involved scientific or technological uncertainty
- Made efforts to overcome this uncertainty
- Couldn't have been easily worked out by a professional in the field.

You may be asking, “What is an advance?” or “What is a scientific or technological uncertainty?”

HM Revenue & Customs (HMRC’s) definitions of these are:

- **Technical or Scientific Advance:** A project outcome that creates an advance in an overall field of science or technology, not just for your business or sector.
- **Technological Uncertainty:** Something that isn’t known to be scientifically or technologically feasible at the beginning of the project.

The rules around eligibility are complex, and many businesses do not realise that their projects may be suitable for a claim.

Often assumptions are made that this relief only applies to the most innovative businesses in highly technical sectors, such as engineering, manufacturing or IT, but this relief is open to all businesses as long as they meet the eligibility criteria.

Successful claims have been made by:

- Private healthcare clinics
- Dentist practices
- Agricultural businesses
- Software and IT
- Manufacturing
- Education
- Finance and insurance
- Construction
- Real estate
- Hospitality
- And many more.

If you are unsure whether a project might be eligible it is best to seek professional advice.

WHAT IS ELIGIBLE R&D EXPENDITURE?

Once you've worked out which projects are eligible for R&D tax relief, you will need to identify what the eligible costs associated with the work are.

These fall into five main categories:

- Staff costs, including employer NIC, pensions and bonuses
- Subcontracted costs
- Raw material costs
- Utility costs
- Software costs.

When collating costs, you should make sure that these align with your company's profit and loss for the year so that HMRC can see how these costs link in with your financial statements.

HMRC will also expect any apportionments applied to R&D costs to be fair and reasonable.

In some cases, HMRC applies more advanced criteria around what costs are eligible, including caps on certain expenditure, so if you are unsure and would like to find out more, please **contact us**.



HOW CAN YOU CLAIM R&D TAX CREDITS AND WHAT ARE THE DEADLINES?

Making an R&D claim allows you to do one of the following:

- Reduce your Corporation Tax liability for the period
- Get a refund of corporation tax that has already been paid
- Receive a tax credit (in the case of loss-making companies)
- Reduce future Corporation Tax liabilities

To claim R&D tax relief, you will need your accountant to enter the claim on your CT600 Corporation Tax return form.

In addition, HMRC expects a clear R&D report to be submitted alongside the worked calculations for the R&D claim.

This report is what HMRC reviews to determine if you meet all their criteria for R&D eligibility, so it is important to produce a robust report for a claim to be successful.

From April 2023, all claims will have to be made digitally. These digital claims must break down the costs across qualifying categories and provide a brief description of the R&D. They will also need to be endorsed by a named senior officer of the company.

Companies will need to inform HMRC, in advance, that they plan to make a claim, unless they have already claimed in one of the preceding three periods. This pre-notification must take place within six months of the end of the period to which the claim relates.

Timeline:

The timelines for claiming R&D tax credits are strict – you must submit any R&D claim within two years of the end of the accounting period in which the work took place.

HMRC will not process any claims submitted after this deadline, which could lead to you missing out on huge tax benefits.

HMRC will typically respond to a claim within six to eight weeks to confirm whether you have been successful.

THE RDEC SCHEME – HOW IT RELATES TO SMALL COMPANIES

Another less generous scheme is available to large companies who wish to make an R&D claim – the RDEC.

This provides an 'above the line' 13 per cent tax credit to the company for eligible R&D costs. This tax credit then reduces any Corporation Tax liability the company has for that period.

However, this scheme is also available to small or medium companies that want to make an R&D claim, but do not qualify for using the SME scheme.

Reasons a small or medium company may not qualify for the SME scheme:

- They have received notified state aid for a specific R&D project.
- They have received general notified state aid that they have used on funding an R&D project(s).

Many SMEs apply for grants and subsidies for R&D projects they carry out. You should always check with the grant provider if the monies you are receiving count as notified state aid.

If they do, then you will have to make a claim through the RDEC scheme for that project that the funding is related.

HERE TO HELP

If you think you may be eligible to claim R&D tax credits, then you should see help to make a claim.

We have helped countless businesses to access this important tax relief, often saving them thousands of pounds in doing so.

To find out how we can help you with R&D tax credits, please **contact us today!**

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