

Research and Development (R&D) Tax Relief



This Presentation Will Cover

- What reliefs are available within the Small and Medium size Enterprises (SME) scheme.
- What is qualifying R&D?
- Qualifying R&D expenditure
- Making a claim
- Recent changes

SME Tax Relief

- Qualifying revenue expenditure is enhanced at a particular rate
- The rate depends upon the date on which the expenditure was incurred:
 - 1 Apr 2011 to 31 Mar 2012 = 100%
 - From 1 Apr 2012 = 125%
- Enhancement is then deducted in the Corporation Tax computation

Payable Tax Credit

- For claimant companies that have made losses in the period
- Surrender the lesser of:
 - the enhanced R&D expenditure, and
 - the unrelieved trading loss of the period

Payable Tax Credit (cont.)

- The rate of the payable tax credit depends upon the date on which the expenditure was incurred:
 - 1 Apr 2011 to 31 Mar 2012 = 12.5%
 - From 1 Apr 2012 = 11%
- Tax credit is capped at the amount of PAYE & NICs liabilities for the period
- The PAYE & NICs restriction has been removed from 1 April 2012.

Research & Development Allowance (RDA)

- The RDA gives relief for capital expenditure incurred on R&D directly undertaken by a trader
- Allowances are only due if the R&D is related to the trade carried on
- The rate of allowance is 100%

What is qualifying R&D?

- Starting point – activities that fall to be accounted for as R&D under GAAP (SSAP 13)
- The accountancy definition is then modified for tax purposes by the BIS guidelines

The definition of R&D

- A **project** that seeks to achieve an **advance** in science or technology (not arts or humanities) through the resolution of scientific or technological **uncertainties**

What is an advance?

- Must represent an advance in the **overall knowledge or capability** in a field of science or technology
- not a company's own state of knowledge or capability alone
- Can be an appreciable improvement to an existing process, product etc

Qualifying R&D Activities

- The activities that **directly contribute** to achieving the advance through the resolution of the uncertainties
- Certain **qualifying indirect activities** which form part of a qualifying project but do not in themselves directly contribute to the resolution of scientific or technological uncertainty

Qualifying revenue expenditure

- **Staffing costs** – includes salary costs, bonuses, employers' NIC, pension contributions, but not benefits in kind. The % time on relevant R&D attracts relief.
- **Consumable items** – includes revenue expenditure on consumable or transformable materials, includes water, fuel and power. Includes any expenditure on software directly employed in R&D activities
- **Subcontract costs** – where a discrete piece of the project is given to a third party, e.g. testing. Generally 65 % of the costs attract relief
- **Externally provided workers** – an external worker brought in to work alongside the claimant company's staff. Generally 65 % of the costs attract relief.

Expenditure not met by the SME

- If the expenditure is subsidised (or if it is sub-contracted to the SME by a large company) relief (but no payable credit) is still available, although that relief follows the large company rules.

Making a Claim

- Identify the R&D project
- Determine the start and end dates of the R&D project
- Establish the qualifying activities within the project
- Quantify the expenditure relating to those activities.
- Claim must be made in a CT return

Recent changes

- De minimis limit – removed for APs ending on or after 1 April 2012 (previously £10,000)
- PAYE cap – removed for APs ending on or after 1 April 2012
- Externally provided workers – removal of tripartite condition for expenditure incurred on or after 1 April 2012

Research and Development Expenditure Credit scheme RDEC

- Introduced 1 April 2013
- Replaces the Large scheme from 1 April 2016
- Allows Large companies to claim a tax credit calculated at 10%
- The credit is accounted for in the P&L and is taxable.
- Companies with no liability can claim a cash payment

Where to get help

- HMRC website
- BIS website
- Specialist units, see page 80350 of the Corporate Intangible Research and Development Manual on the HMRC Website.

Thank you

Any questions?

Contacts.

- Manchester Specialist Unit
- 03000 510 190

- Technical guidance
- <http://www.hmrc.gov.uk/ct/forms-rates/claims/randd.htm>