



Research & Development Tax Relief



R&D Tax Credits are a UK tax incentive designed to encourage companies to invest in R&D. Companies can reduce their tax bill or claim payable cash credits as a proportion of their R&D expenditure.



What is the definition of Research and Development?

An R&D project is one that seeks to achieve scientific or technological advances. It will aim to advance the overall knowledge or capability in a field of science or technology and will involve significant scientific or technological uncertainty.

It is not necessary for a company to be involved in a high tech field in order to qualify for R&D relief. All that is needed, is a problem without a readily deducible or freely available solution which the company is attempting to solve by developing an advance.

There are some restrictions on what counts as an advance, with social science in particular being excluded. A Company does not need to succeed in its R&D projects in order to qualify for R&D relief. Indeed the idea behind R&D relief is that the outcome of R&D projects is uncertain and projects may experience frequent failures before success is achieved.

What is Research and Development Tax Relief?

R&D tax relief is a relief claimable by trading companies of all sizes. Companies making qualifying expenditure on R&D can claim under two schemes, the Research and Development Expenditure Credit (RDEC) or the SME Relief Scheme

SME Scheme

To qualify for the SME Scheme a company must fulfil the following conditions:

- Fewer than 500 Employees
- Turnover below €100m or a balance sheet total below €86m
- The project must not be benefiting from notifiable state aid.
- The company must not have been subcontracted by another company.

When determining the first two conditions you must include staff, turnover and balance sheets of any linked companies (>50% parent and subsidiaries) and a proportion of staff, turnover and balance sheets of any partner companies (>25% share holdings).

SME's may deduct an additional 130% of qualifying expenditure and if loss making may make a tax credit claim of 14.5% of the surrenderable loss.

It has been announced that the tax credit will be capped at £20,000 plus three times the Company's total Pay As You Earn (PAYE) and NICs Liability for the year. The cap will come into effect for accounting periods beginning on or after 1 April 2021.

RDEC Scheme

The RDEC scheme is available to all companies engaged in R&D including those SME's disqualified for receiving state aid or performing subcontracted work.

The scheme provides a taxable 13% (12% on expenditure before 1 April 2020) credit on qualifying expenditure and may result in a cash credit depending on the company's individual circumstances. There is a prescribed method for applying the tax credit and it is important this is done correctly as it can impact future tax years.

What is qualifying expenditure?

In order to qualify as R&D expenditure an expense must fit exactly into one of a number of categories HMRC has set. The most common ones are:

- Staffing costs directly and indirectly related to research & development projects.
- Materials, water, fuel and power used directly in carrying out research & development.
- Software purchased and used in the development.
- 65% of sub-contracted research and development costs subject to some restrictions under the RDEC Scheme. The sub-contractor does not need to be based in the UK.
- Capital Expenditure is not included, but 100% tax relief may be available for R&D capital costs.

If an expense does not fit into a category it cannot be claimed no matter how vital it may be to the R&D being performed.

What are qualifying indirect activities?

A number of categories permit the inclusion of expenses that are only indirectly supporting the R&D process. Typical examples of indirect costs are:

- Scientific information services which are conducted for the purpose of R&D support
- Indirect supporting activities such as security, administration, finance and personnel, which are undertaken for R&D
- Training required to support an R&D project
- Research into new testing or sampling methods
- Feasibility studies to develop strategic direction of a specific R&D activity

Making a claim

Companies can make or amend an R&D claim within two years of the end of the relevant accounting period. An overview of the R&D claim should be included with the company corporation tax return and HMRC aim to respond within 28 days of submission.

Many companies can benefit from significant cash tax savings either by way of reduced tax liabilities, refunds, or cash tax credits.

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