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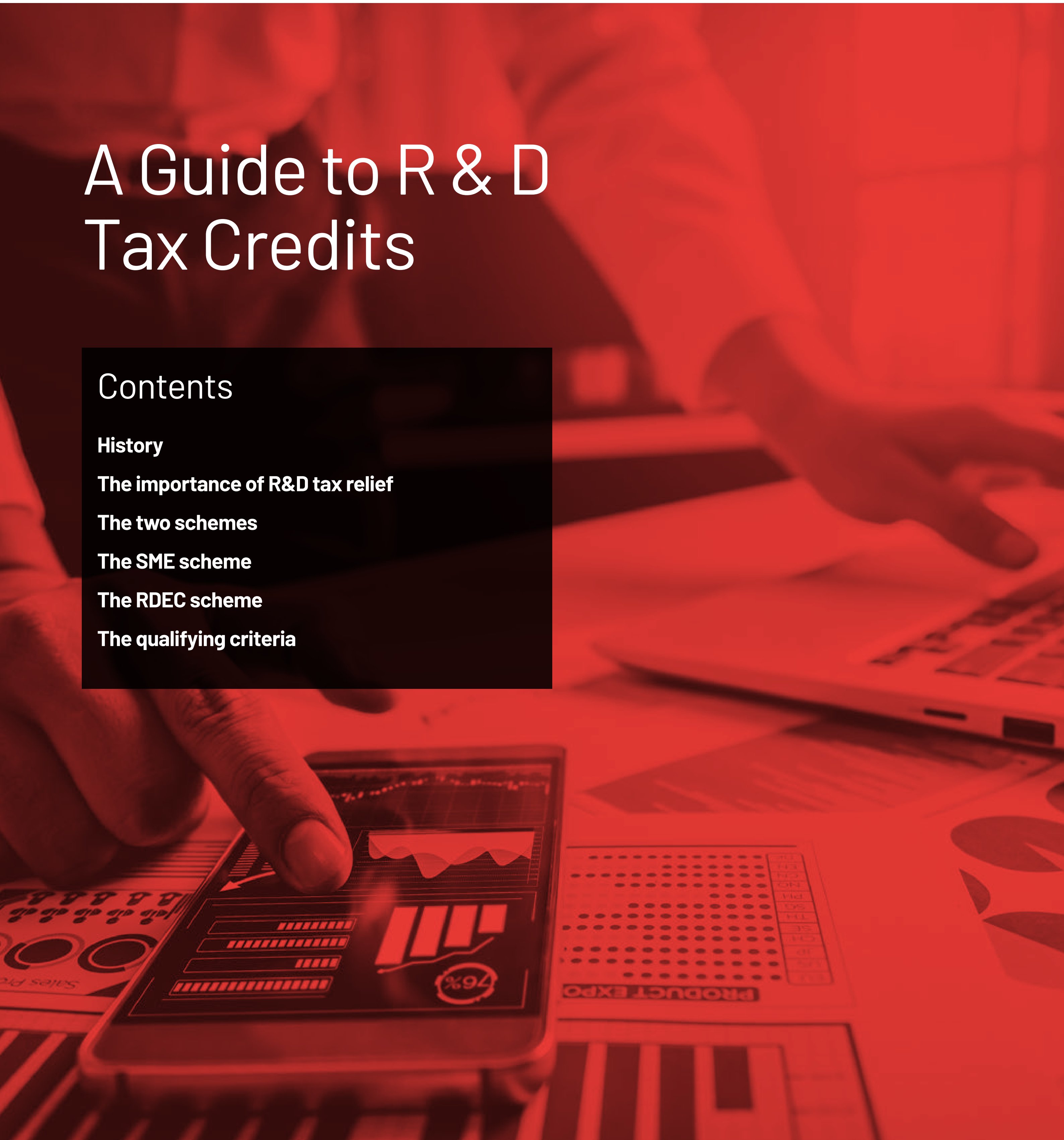

A Guide to R & D Tax Credits

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History

Research and Development (R&D) tax credits were introduced in the UK in 2000 to encourage greater R&D spending by Small and Medium-sized Enterprises (SMEs) and drive investment in innovation in the UK.

If the company cannot claim the expenses fully or in part through the SME scheme there is a second scheme called Research and Development Expenditure Credit (RDEC) scheme which gives a payable credit to the company involved in R&D. This scheme became fully operational in 2016 and allows the company's work in the field of R&D more visible to investors, by treating the credit as taxable income in the P&L of the company.

The statistics show there to be around a 20% rise in the number of claims made year on year from 2014/15 onwards with tax relief of £5.4 billion being given in 2018/19.

Claims are focused on companies with their registered offices being in London and the southeast of England. 68% of all claims come from the Professional, Scientific and Technical, and Information and Communication sectors. However, other sectors, for example Construction, are now realising the potential of tax relief for their innovative works.

The importance of R&D tax relief

Small and Medium-sized Enterprises (SMEs) make up over 99% of all businesses in the UK and therefore innovation in these businesses is extremely important to the UK economy. Innovation will drive forward the UK's post-Brexit growth and sustainability.

Some companies could be missing out on this tax relief, whether they are currently profitable or not.

If a company undertakes a project which qualifies for R&D tax relief under the SME scheme, the costs of working on these projects receive tax credits worth an ADDITIONAL 130%, on top of the 100% of the costs already deducted from the company's annual profits. This is referred to as enhanced expenditure and the result is 230% of the costs are used to reduce the company's tax liability if that company is in profit.

The two schemes

There are two schemes for claiming R&D Tax Credits: for companies meeting the SME criteria and one scheme for those outside the criteria.

But not meeting the criteria does not necessarily make the company "large" however it does affect the scheme and so the amount of tax relief which can be claimed.

The SME scheme

The SME definition currently remains an EU definition. The intention was to produce a level playing field for all European companies when vying for the location of innovative businesses. The definition remains until the UK re-legislates in this matter.

Less than 500 F/T staff members AND

Turnover is less than €100m OR

Balance sheet is less than €86m

If the SME has received a grant or subsidy towards their R&D project or if they have been subcontracted to undertake the R&D project by a large company, they are not eligible for the R&D tax credit scheme but can potentially still claim under the **Research and Development Expenditure Credit** (RDEC) scheme.

RDEC scheme

This scheme is less financially attractive with a credit of 13% of the qualifying R&D expenditure being given in a similar way to how a source of funding for example a grant would be shown in the company's accounts, resulting in the credit being a taxable source of income, taxed at the rate of Corporation Tax, which is currently 19%.

All R&D tax incentives exist to encourage investment in innovation. Large company investors, looking at the profitability of a company will see the investment in R&D and the positive effect this has on the bottom line, whereas a tax credit would not be visible to those making investment decisions.

Example	
£100,000 spent under RDEC scheme	£13,000 gross credit
Taxable @ 19%	£ 2,470
Net benefit	£10,530

The qualifying criteria

If the company is attempting to create, extend, incorporate, improve or duplicate a process, material, device, product, system or service which the competent professionals working in that field cannot find a readily deducible answer to, or if it is uncertain that what is being attempted is scientifically possible or technologically feasible, then it is possible that R&D is being undertaken.

The company must be seeking an advance in the current state of knowledge in the particular field and the competent professional must conclude that the advance being sought is not trivial, that it is a significant advance however improving something which is already established by making it a more cost effective, reliable, reproducible process, material, device, product or service can be classed as R&D.

Want to explore further?

Why not call us to discuss the potential for R&D tax relief being available to your company, our experts will help guide you and can assist with building the report and making the claim.