

RESEARCH AND DEVELOPMENT TAX CREDITS – ENHANCED TAX RELIEF AND TAX REFUND OPPORTUNITIES

R&D tax credits were introduced for SMEs in April 2000 and for large companies from April 2002. For innovative businesses R&D tax credits are a way of claiming tax back from HM Revenue & Customs (“HMRC”).

For qualifying R&D expenditure incurred from 1 April 2015 profitable SME companies can claim an additional 130% of tax relief (125% before 1 April 2015) – i.e. for every £10,000 spent on qualifying R&D the company can claim an additional £13,000 of tax relief – thus reducing the overall tax bill by £2,600. Where the R&D tax relief claim results in a loss for a SME company, that loss can be “surrendered” for a cash refund from HMRC of up to 14.5% of the amount “surrendered”.

The credit is also available for “large” companies but is less generous – a new “above the line” credit has been introduced from 1 April 2013 which is calculated in a different way to the SME relief. Broadly, the effect is that the credit reduces the tax liability of a large company by approximately 8.8% of the qualifying R&D spend (7.7% for expenditure before 1 April 2015) – i.e. for every £10,000 spent on qualifying R&D the tax liability would be reduced by £880.

Definition of “SME”

For the purposes of R&D tax credits a SME company is one with less than 500 employees and either:

- Turnover less than €100m; or
- Balance sheet total less than €86m

There are special rules for groups.

Definition of qualifying activities

The definition of qualifying R&D activities is the same for small and large companies.

Broadly an activity must be seeking to achieve a significant advance in science or technology through the resolution of a scientific or technological uncertainty. A scientific or technological uncertainty exists when knowledge of whether something is scientifically possible or technologically feasible, or how to achieve it in practice, is not readily available or deductible by a competent professional working in the field. The main costs which can qualify for the R&D tax credits are:-

- Staffing costs attributable to qualifying R&D;
- Software used in the R&D project;
- Consumables items such as fuel, electricity and water used for the purposes of R&D;
- Materials used in the R&D project;
- Certain sub-contractor costs.

Types of company which can claim the relief

A company in any sector can potentially claim R&D tax credits – the key point is whether there are qualifying R&D activities being undertaken.



By way of example, some of the companies we have claimed R&D tax relief for are:-

- Travel agency – bespoke software
- Manufacturing – innovative products including gearing mechanisms and cutting tools
- Food processing/manufacture – including development of new sauces and fillings
- Software development - including new algorithms, integration and web content filtering.

How we can help

We have advised on all aspects of R&D from reviewing a company’s activities to establish whether a claim is viable through to producing reports/documentation for submission to HMRC to substantiate claims for the relief.

For more information or to discuss any potential cases, please contact Finnies on

01482 861919 or email at **enquiries@finnies.org.uk**
www.finnies.org.uk