

# R&D Tax Relief for SMEs

The UK has had an R&D tax relief regime since April 2000, but lots of companies – particularly SMEs - are still missing out on valuable relief because they don't realise the full extent of its scope.

R&D can be a speculative cost that can have a significant impact on the profitability of a business. Companies incurring expenditure on qualifying R&D should take advantage of the tax benefits introduced in the UK to encourage innovation.

Many opportunities to improve a company's tax position can be overlooked because the tax definition of R&D is typically much wider than many people think. For tax purposes, R&D can include incremental changes and improvements to materials, products and manufacturing processes. These activities may arise from trying to meet customer requirements, overcoming production problems or achieving compliance with regulations. As such, the definition of R&D goes well beyond the traditional image of 'blue sky' thinking.

For the purpose of this relief, SMEs are broadly companies with fewer than 500 employees and either a turnover not exceeding €100m (about £86m), or a balance sheet total not exceeding €86m (about £74m).

## What is R&D?

The definition of R&D for tax purposes is much wider than you might think and can cover activities such as:

- Extending the overall knowledge or capability in a field of science or technology
- Creating a process, material, device, product or service which incorporates or represents an increase in overall knowledge or capability in a field of science or technology
- Making an appreciable improvement to an existing process, material, device, product or service through scientific or technological changes
- Using science or technology to replicate the effect of an existing process, material, device, product or service in a new or appreciably improved way

## Reliefs available

Actually, there are two forms of tax benefit you may be eligible for in respect of your R&D expenditure.

- R&D Tax Relief is available at a 'super deduction' rate of 230% for SMEs that incur revenue expenditure on qualifying R&D. This means for every £100 spent on qualifying R&D, the company is able to deduct £230 in computing its taxable profits for the year of expenditure. This is equivalent to a cash benefit of £26 for companies paying corporation tax.
- R&D Allowances (RDA) are available to companies that incur qualifying capital expenditure and are given at the rate of 100% in the year in which the expenditure is incurred. This is much more attractive than the general rate for plant & machinery and, significantly, qualifying capital expenditure could include relevant buildings, but not land.

Additionally, SMEs that are not in a taxpaying position can still benefit from the R&D Tax Relief by receiving a payable credit. This is a cash payment of up to 33.35% of the qualifying expenditure.

## What expenditure might qualify?

The main categories of qualifying expenditure for R&D relief will be:

- Staff costs for your employees to the extent that they are directly and actively engaged in R&D activity.
- Software or consumable items (including the appropriate light, heat and power costs) used in the R&D process.
- The qualifying element of payments for externally provided workers (agency workers and certain contractors).

In addition, if you subcontract qualifying R&D activity to another person, you will be able to claim relief for the qualifying element of that payment. In most cases, this will be 65% of the payment.

### **Will the above-the-line R&D Expenditure Credit (RDEC) affect me?**

More likely than not, no it won't. The RDEC, which came into effect for expenditure on or after 1 April 2013, is primarily aimed at large companies. SMEs may find that they come within the scope of the RDEC, however, in respect of:

- R&D contracted out to the SME by either
  - a large company; or
  - any person, other than in the course of a chargeable trade
- Subsidised expenditure; or
- Capped expenditure

In these cases, you might find that you need to claim under the new RDEC regime for this expenditure and under the SME regime for all other qualifying expenditure.

### **What should we be doing now?**

Consider these questions:

- Do you undertake projects to develop, create, change or enhance your products, processes or services?
- Do you have to overcome technological problems to succeed in those projects?
- Do you employ technologists to solve those technological problems?

If you answer 'yes' to any of these questions, then it is most likely that you will be carrying out R&D for tax purposes. No matter how 'routine' you feel this work is for your business, it is worth getting specialist advice as to whether R&D relief could save you a lot of money.

You might be eligible for significant tax benefits on your R&D expenditure and not realise it!

### **How can I help?**

Depending on your company's R&D activities, customised reviews can ensure the consideration of all available R&D incentives in terms of enhanced deductions, credits and RDAs.

Contact me now for a no-obligation chat about how your company can benefit from R&D relief.

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