

R&D Expenditure Credit

R&D tax relief for large companies has changed. For expenditure incurred on or after 1 April 2013, a new above-the-line R&D Expenditure Credit (RDEC) is available in place of the previous super-deduction.

The RDEC can be claimed by a large company in respect of any of its qualifying expenditure incurred on or after 1 April 2013. Until April 2016, a large company may continue to claim under the existing super-deduction rules in Part 13 CTA 2009 but a claim may not be made under both provisions in respect of the same expenditure.

Furthermore, once a claim has been made (before April 2016) under the new provisions, the company may not subsequently claim under the existing provisions of Part 13 CTA 2009.

For expenditure incurred on or after 1 April 2016, the RDEC will be compulsory for large companies wishing to claim R&D relief.

What is the RDEC?

Essentially, this is a quite straightforward provision that allows companies to claim an expenditure credit based upon their qualifying R&D expenditure. The credit will be treated as a taxable receipt of the business but it will also be available to discharge the company's corporation tax liability (subject to conditions described below). It is anticipated that the credit will be accounted for as a reduction of R&D expenses in the statutory accounts.

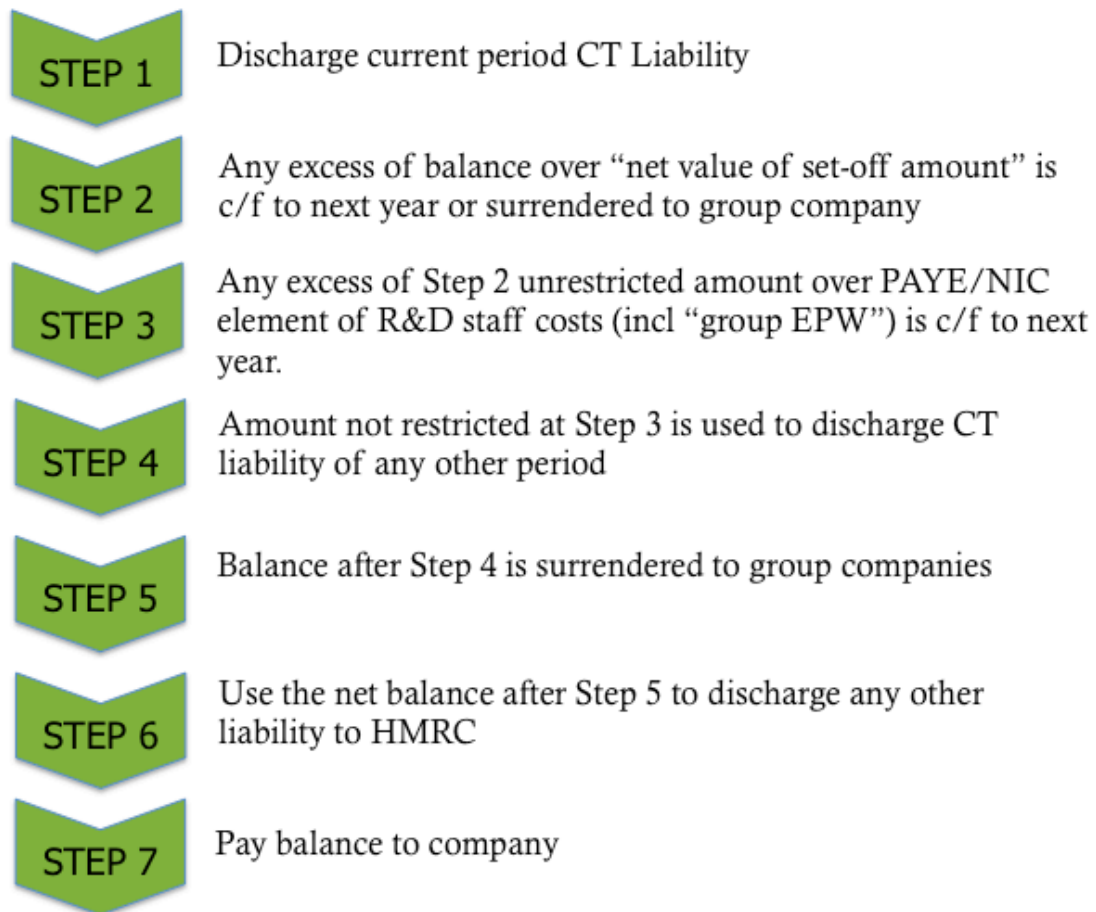
The rate of credit was initially set at 10% of the qualifying expenditure. For expenditure incurred on or after 1 April 2015, the rate of credit is increased to 11%. The rate was further increased to 12% for expenditure incurred on or after 1 January 2018.

Does the RDEC also apply to SMEs?

An SME will continue to claim relief under Part 13 CTA 2009. However, expenditure that currently falls to be relieved under Chapters 3 or 4 (expenditure subcontracted to the SME by a large company, subsidised expenditure and capped expenditure) will now fall within the new RDEC provisions (with the element of choice, as above, until April 2016).

How does it work?

The RDEC will be treated as a taxable credit in the company's tax computation. The credit can then be utilised to discharge the company's liability to pay corporation tax. If the Credit exceeds the company's CT liability for that period, the excess can be used as follows.



Any amounts still remaining at the end of that process can be paid out in cash. Before any amount of Credit available to be paid out is actually paid there is a similar ‘going concern’ restriction as currently applies to relief for SMEs under Part 13 CTA 2009.

Interaction with Quarterly Instalment Payments

Since the RDEC does not directly affect the computation of the CT liability, it cannot be taken into account in computing quarterly instalment payments. However, an RDEC can be used to discharge an instalment payment, as appropriate.

Making a claim

As with the current system, claims will need to be made within 2 years of the end of the relevant accounting period.

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

What should we be doing now?

If you have not claimed R&D relief before, perhaps because you didn’t have a UK corporation tax liability, it is most likely that you will be able to benefit from the RDEC. Unlike the super-deduction relief, the RDEC has provision for a payable credit. In this case, you will need to start thinking about identifying your R&D activity and the associated qualifying expenditure.

How can I help?

I have been working with companies in all sectors since the introduction of R&D relief to the UK some 15 years ago. I can help you to prepare for the RDEC, whether you are already claiming R&D relief and simply want advice on the new regime, or you would like advice and assistance in preparing your first R&D claim.

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

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