



What is R&D Tax Relief and does my business qualify?

R&D tax relief is an incentive regime, first introduced into the UK in 2000, that helps companies fund their product/service development.

It can deliver significant reductions in corporation tax or even a payment from HMRC where there is insufficient tax liability.

An absolutely fundamental point to understand is that the definition of 'R&D' for these purposes is pretty broad; it is not just limited to scientists in laboratories! If you can answer 'yes' to any of these questions then you are most likely to qualify:

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

What is it worth? Well, an SME with £500,000 of qualifying expenditure would see a reduction in their corporation tax bill of £123,500. If they were currently in a tax loss situation, they would receive a payment from HMRC of £166,750.

For a large company with £5m of qualifying expenditure, there would be a tax saving of £486,000 or, if the company was in a tax loss situation, a payment from HMRC of £486,000.

What sort of activity is 'R&D'? In short, anything where you are seeking to advance knowledge or capability in an area of technology. If you are trying to overcome technological risk and uncertainty then it is likely that you are undertaking 'R&D' for these purposes.

There are six categories of potentially eligible expenditure in the legislation. The first five are available to companies of any size – although the detailed subcontract rules are quite different for SMEs and large companies – with the last one only relevant to large companies.

The categories are:

- Staff costs
- Externally Provided Workers (for example, agency workers)

- Expenditure on software or consumable items (this specifically includes relevant light, heat & power costs)
- Payments to the subjects of a clinical trial
- Payments to a subcontractor in respect of R&D work (in some situations)
- Contributions to independent R&D (large companies only)

R&D relief does have to be claimed – it isn't given automatically. Strictly, the company need only include the relevant numbers in its Corporation Tax Return (CT600).

In practice, however, HMRC will need much more information in order to review any claim.

Rather than wait to be asked – which is much more likely if no information at all is provided – it is better to provide that information upfront in a properly prepared claim report. The basic information needed is as follows.

- Description of the qualifying activities, explaining the advances sought and uncertainties overcome.
- Breakdown of the relevant eligible costs, showing how these have been arrived at.

Some of the more common mistakes that are seen in R&D claims – by HMRC and by me when I am reviewing claims prepared by others – are:

- Project activities outside the scope of R&D for tax purposes are included in the claim. Regrettably, this seems to be on the increase. Make sure your claim preparer really understands the definition of R&D.
- Equally, I regularly see – in claims prepared in house or by other advisers – potentially qualifying activities omitted from the claim. It is absolutely essential to fully understand the definition of R&D in order to optimise the value of the claim.
- Expenditure outside the qualifying categories is claimed. It is not unusual, in my experience, to see claims made in respect of (for example) overheads that do not qualify as consumable items or consumable stores.

If you think that you may be undertaking R&D activities – and especially if you have answered 'yes' to any of the questions in the first section of this note – then you should be claiming R&D relief.

David O'Keeffe runs Aiglon Consulting. He has more than 30 years' experience in Tax, more than ten of those as a partner at KPMG and more than 19 years' experience of R&D tax relief. You can find out more at www.aiglonconsulting.com

Are you developing new or improved products or services?

Your company may qualify for financial relief if you are spending on innovation. I can help you to find out.

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