



RESEARCH & DEVELOPMENT (R&D) TAX RELIEF

Overview

R&D tax relief will be familiar to many companies. Originally introduced in 2000, the R&D regime has been through a number of changes over the years.

Although the rules are complex, by providing proper guidance and attention to procedures and processes, we can help access the very generous benefits which are available to companies carrying out qualifying R&D as part of their trading activities.

R&D tax relief is available only to limited companies, and there are two schemes under which R&D relief can be claimed. The level of R&D relief available depends on which scheme the company chooses. The schemes are:

The SME scheme for small and medium-sized enterprises.

The Research and Development Expenditure Credit (RDEC) scheme.

Under the SME scheme, from 1 April 2015, a company can claim tax relief at a rate of 230% of their qualifying R&D costs. This will significantly reduce their Corporation Tax liability. If the enhanced relief for expenditure creates a loss, there is the potential for the company to surrender its loss in return for a repayable tax credit.

The RDEC scheme replaced the “large company scheme” in April 2016. For expenditure on or after 1 April 2020 the credit is calculated at 13% of the company’s qualifying R&D expenditure. Companies will benefit either through a cash payment from HMRC or a reduction of tax.

SMEs will also be able to claim RDEC if they do sub-contracted or subsidised research.

What qualifies as R&D?

For the purposes of the relief, an R&D project is one which involves research and development work in the field of science or technology. This can include creating new processes, products or services, or making improvements to existing ones. Using science and technology to duplicate existing products, processes or services for use in a new way will qualify. The definition also includes design and engineering aimed at overcoming difficult technological problems.

HMRC cites examples of what it considers to be qualifying activities as follows:

- Software development
- Engineering design
- New construction techniques
- Research into bioenergy or cleantech
- Scientific activity in the areas of agri-food and life and health sciences.
- This is, by no means, an exhaustive list.



What expenditure can be claimed for?

Under the SME scheme, a company can claim for a percentage of wage and related costs for its staff who are actively engaged in R&D, and also for the costs of externally provided staff who work on the qualifying project. It can also claim for consumable items and for software used in qualifying projects.

For accounting periods beginning on or after 1 April 2021, a cap on the SME payable credit comes into force. Under that, the maximum payable R&D tax credit companies can claim will be set at 300% of the company's total PAYE and NIC liabilities for that period. In other words, an SME's salary bill will have a direct effect on its ability to claim R&D tax credit.

How can Friend Partnership help?

Friend Partnership has considerable experience in the field of R&D tax relief. Our highly experienced R&D team can advise on what qualifies as allowable R&D projects and expenditure and the most beneficial way to claim the relief.

If you have any questions regarding this Briefing Note please contact:

Mark Scotter

Tel: +44 (0)121 633 2009

Email: mark.scotter@friendllp.com

Disclaimer | We have taken care to ensure the accuracy of this publication, which is based on material in the public domain at the time of issue. However, the publication is written in general terms for information purposes only and in no way constitutes specific advice. Specific advice from an appropriate professional should be taken in every case. No responsibility can be taken for actions taken, for any errors contained in the publication or for any loss arising from action taken or refrained from on the basis of this publication or its contents.

Friend Partnership is a forward-thinking firm of accountants, business advisers, and corporate finance and tax specialists. Based in Birmingham, in the heart of the UK, we act for entrepreneurial businesses and successful individuals on a national and international basis.

