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Tax – Unlocking Value through Research and Development Tax Credits

Research and Development (R&D) tax reliefs support companies that work on innovative projects in science and technology by providing tax credits which can generate tax relief at rates of up to 130% of qualifying expenditure.

Many UK companies are consistently spending on research and development and, as it stands, a large proportion are missing out on significant tax benefits.

Qualifying for R&D

To benefit from R&D tax incentives, the business must:

1. Be a UK resident company that is subject to Corporation Tax.
2. Have carried out qualifying research and development activities.
3. Have incurred cost on these activities.

Activities that qualify as R&D

The activity must relate to a company's trade – either an existing one or a new one. It is then necessary to answer the following questions:

1. What is the scientific or technical advance sought?
2. What are the scientific or technical uncertainties?
3. How and when will these uncertainties be overcome?
4. Why is the solution to the uncertainties not identifiable by a competent professional?

Costs that qualify for tax relief

In simple terms, the following costs should, subject to the detail, qualify as relevant expenditure:

- Staff, including salaries, employer's NIC, pension contributions and reimbursed expenses
- Subcontractors and freelancers
- Materials and consumables including heat, light and power that are used or transformed by the R&D process
- Some types of software

Administration

There are several schemes available and qualification will depend on the size of the company.

R&D relief must be claimed within two years of the end of the company's accounting period and, on making a claim for the first time, typically tax relief can be claimed for the last two completed accounting periods.



What do I need to do?

The landscape for the UK is changing; economically, politically and socially. Taking advantage of changes in tax legislation and dealing with the changing tax dynamic being introduced by HMRC is more important than ever.

Given this is an area of taxation that government is likely to continue to support, there will be increased focus on these claims by HMRC and therefore ensuring activities and costs qualify and presenting the application in the correct format is key to having a claim accepted and retained.

Any company which may be involved in research and development activities should ensure that the entitlement to tax relief is being vigorously pursued.

Does this topic raise any questions in your mind?
Would you like more information on a particular item?
Please speak to one of our experts:

Tel: 01795 594495
Fax: 01795 594499

enquiries@chavereys.co.uk
www.chavereys.co.uk



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