

CHAVEREYS

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Research & Development Tax Relief

Key Points

The R&D tax regime offers valuable incentives to companies that carry out innovative work in science and technology. Despite the common misconception, it is not just available to high-tech, pharmaceutical, or R&D-centric businesses but can be claimed by a broad range of companies provided they are seeking to make an advancement in their relevant field or industry.

The main aspects of the R&D regime in the UK together with what expenditure is eligible and the tax reliefs that are available are set out below.

However, some of the key points to note are:

- the enhanced relief for revenue expenditure on R&D is only available to trading companies
- there are two R&D schemes, one for SMEs and one for large companies
- qualifying R&D is not just restricted to projects which result in new products or processes but can also include improvements, changes, or modifications to an existing one
- R&D projects which are ultimately unsuccessful can still qualify for relief provided the other conditions are met
- it is helpful when systems are in place to try and accurately capture R&D costs and maximise the company's overall claim
- relief can typically be claimed for up to two years following the company's accounting period, though there may be earlier notification requirements for accounting periods starting on or after 1 April 2023.

What is R&D?

Broadly, R&D for tax purposes takes place when a project 'seeks to achieve an advance in science or technology' and helps overcome an uncertainty that is not easily solved by a professional in that particular field.

It is important to note that R&D projects can take many forms. While this can include new processes or new products, it can also arise from 'appreciable improvements' to an existing process, product or service. Additionally, R&D is not always successful. However, even if a project is ultimately unsuccessful it could still qualify for R&D tax relief if it sought a solution which was not evident at the outset.

As a rough guide, while answering 'yes' to any of these does not guarantee a claim, it might suggest further investigation is warranted:

- have you done something to differentiate yourself within your industry or sector?
 - have you taken on something particularly challenging?
 - have you taken on risk in trying to achieve something?
 - have you invested time and effort into making efficiency-gains?
 - do you operate in a market that is specialised, niche or highly regulated?
 - do you employ highly skilled or qualified technical staff?
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Whatever size or sector, if your company is taking a risk by attempting to resolve scientific or technological uncertainties, then it may be carrying out qualifying activity. We can work with you to identify qualifying projects and discuss what costs may be eligible for relief.

What tax relief is available?

There are two R&D regimes currently available for trading companies that incur expenditure on qualifying R&D – one for SMEs and one for large companies. To qualify for either scheme, certain criteria must be met. We have included some information on the schemes below but we would be happy to talk you through them in more detail.

SME Scheme

Broadly, a claim can be made under the SME scheme provided the company or group has:

- fewer than 500 employees, and
- either turnover of no more than €100m, or
- gross assets of no more than €86m
- Under the SME scheme, relief is available as:
- an enhanced deduction that reduces taxable profits (or increases trading losses), or
- a repayable tax credit

An SME incurring qualifying R&D expenditure can claim an additional deduction of 86% (130% for expenditure incurred prior to 1 April 2023) of the relevant costs incurred (this is in addition to the normal profit and loss deduction).

Alternatively, for loss-making companies, it is possible to surrender the loss for a repayable tax credit. A typical loss-making SME receives up to 18.6% of a repayable credit on qualifying expenditure (33% for expenditure incurred prior to 1 April 2023).

Large company scheme

Large companies can make a claim under what is known as the Research and Development Expenditure Credit (RDEC) scheme. The RDEC entitles the company to a 20% tax credit the qualifying R&D spend (13% prior to 1 April 2023). The credit is taxable which means the net benefit after tax is typically worth 15% of the qualifying R&D expenditure.

What expenditure qualifies for R&D relief?

Expenditure on qualifying R&D may qualify for R&D tax relief if it falls within the following categories:

- staffing costs
- externally provided workers
- software or consumable items
- relevant payments to the subjects of clinical trials
- for large companies only: contributions to independent research carried out by a qualifying body, an individual or a firm, each member of which is an individual
- work subcontracted into and out of both SME and large companies (subject to certain restrictions and conditions)

We can assist the company in capturing eligible costs and maximising those included in a valid claim.

When can a claim be made?

The time limit for a claim is two years from the end of the company's accounting period. For example, if the accounting period was the year to 31 December 2021, a claim could be made up to 31 December 2023.

However, for claims which relate to accounting periods beginning on or after 1 April 2023 companies must also submit a claim notification form within six months of their accounting period for any R&D claim to be valid (though there is an exception for companies which have previously made a valid R&D claim within three years prior to the end of that six-month notification period).

It is therefore important to start discussions around the availability of R&D relief from the outset of any relevant project, particularly in light of the stricter timeframes that can apply from 1 April 2023.

Further information and contacts

If you think your company might qualify under the R&D scheme or would like to know more information on the possible availability of R&D relief, please get in touch with us to discuss all the above areas in relation to your business.

This document is intended as a general guide and although Chavereys have made every effort to ensure accuracy, they cannot accept liability for any errors of fact or opinion.

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