

# RESEARCH AND DEVELOPMENT TAX RELIEF



The **Research and Development (R&D) tax relief** is a government-backed incentive to encourage innovation in the fields of **UK science and technology**. If your business can meet the requirements – and can prove that you're advancing scientific or technological knowledge by resolving uncertainty in these fields – **you can claim significant additional deductions against your taxable profits** or, under certain circumstances, claim a cash repayment from HMRC. But proving that you're meeting these conditions can be a complex task. The relief only applies to specific elements of your overall R&D spending, and you have to meet some quite stringent conditions to qualify for the relief. So, how do you know if you can apply?



## WHICH R&D TAX RELIEF SCHEME?

The first thing to bear in mind is that there are two distinct and separate R&D tax relief schemes:

**One for large companies with substantial R&D spending...**



**One aimed squarely at small and medium-sized enterprises (SMEs).**



For the purposes of this white paper, we'll be focusing on the SME scheme.

## QUALIFYING FOR THE SME SCHEME

If you're a small business that carries out R&D around science and technology projects, it's advisable to check whether you can make a claim. And the first thing to check is whether your business meets the initial conditions set out for the SME scheme.

- **Firstly, you must have fewer than 500 employees in your company**
- **Secondly, you must have either:**
  - **An annual turnover of under £100 million**
  - **A balance sheet under £86 million**

## SUBCONTRACTORS CAN'T APPLY



If you're a subcontractor, carrying out work on behalf of another business, you don't qualify for the SME scheme. But it's possible you may qualify to claim through the large company scheme rules under certain circumstances – check with us to see if this applies.

## ACTIVITIES THAT QUALIFY

Only certain R&D activities will attract relief. On the whole, the basic aim is for your research to expand knowledge in the areas of science and technology, and this grounding principle means you can claim for research in the following closely defined areas.

- **Project** – a project that aims to produce a new product, process or service, or advance understanding in the sciences and technology
- **Advance in science or technology** – research that moves forward knowledge for the wider scientific or technological community, not just the knowledge of your company
- **Science** – research relating to the systematic study of the nature and behaviour of the physical and material universe
- **Technology** – research around the practical application of scientific principles and knowledge (with 'science' defined as above)
- **Directly contribute** – an advance in science or technology that resolves an element of the uncertainty associated with achieving the advance
- **Scientific or technological uncertainty** – research that removes uncertainty around whether something is scientifically possible or technologically feasible



## R&D SPEND THAT CAN BE CLAIMED

If your R&D meets the requirements for qualifying activity, there are only certain elements of your overall research spending that can be claimed against.

- **Staff costs** – You can claim back the cost of employing staff who are actively engaged in carrying out your R&D
- **Externally provided workers and subcontractors** – You can also claim a proportion (usually 65%) of the cost of paying a third party that provides staff to your company, or subcontractors who are directly and actively engaged in carrying out your R&D
- **Consumable items** – Any consumable or transformable materials you've used directly in carrying out your R&D can also be claimed
- **Software** – Any expenditure on computer software that you've used directly in your R&D can be claimed
- **Utility costs** – Power, water and fuel you've used directly in carrying out your R&D can be claimed. But you can't claim for telecommunication or data costs

## TAX RELIEF OR A TAX CREDIT

You can choose to receive either tax relief on your allowable R&D costs, or – if your company has made a loss – a tax credit that's paid as a cash sum to you from HMRC

### TAX RELIEF

The tax relief on R&D costs is **230%**. So for every £100 of qualifying costs, you can reduce your taxable profit by an additional **£130** on top of the **£100** spent

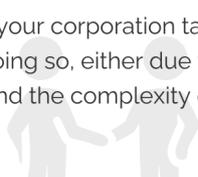
### TAX CREDIT

If the additional deductions arising from the R&D expenditure result in a tax loss, rather than carrying that loss forward to set against future profits under certain circumstances you can convert it into an immediate cash payment at a rate of **14.5%** of the qualifying loss

## HOW CAN WE HELP

The SME scheme offers a great opportunity to reduce your corporation tax bill or to get a tax rebate from HMRC – but many SMEs aren't doing so, either due to unfamiliarity of the relief, or not being able to understand the complexity of the qualification process.

Working out whether your research meets the qualifying restrictions, and which elements of your overall R&D spending can be claimed against, is complicated and time-consuming. Professional advice is essential if you want to make the most of a claim.



## IF YOUR BUSINESS IS LOOKING TO CLAIM THOUGHT THE SME SCHEME, WE CAN TELL YOU:

- ✓ Whether you meet the requirements for the scheme
- ✓ What elements of your R&D costs you could claim against
- ✓ How to complete the application for the credit

Contact Chaddesley Sanford to arrange a chat with our R&D tax specialist. You can call us on **01483 802895** or email us on **enquiries@chadsan.com**.