

R&D tax relief for smaller companies

This is a useful relief for small companies engaged in research and development. We have provided below a few definitions to help readers decide if their endeavours qualify for this relief:

- this relief is available to companies subject to Corporation Tax (CT), so in the main, limited companies only.
- group structures need to be taken into account.
- small and medium sized enterprises (SMEs) can apply if:
 - staff headcount is less than 500
 - either turnover is less than €100m, or balance sheet total is less than €86m.

If your company qualifies, what counts as R&D?

To claim this relief, R&D is deemed to have taken place when a project seeks to achieve an advance in overall knowledge or capability in a field of science and technology. According to the notes provided by HMRC:

R&D has a specific statutory definition for the purposes of R&D tax relief which is not the same as the commercial, engineering or accounting definitions.

To qualify, the company must be carrying out research and development work in the field of science or technology. The relief is not just for 'white coat' scientific research but also for 'brown coat' development work in design and engineering that involves overcoming difficult technological problems.

This can include creating new processes, products or services, making appreciable improvements to existing ones and even using science and technology to duplicate existing processes, products and services in a new way. But pure product development in itself does not qualify.

Some examples of qualifying activities include software development, engineering design, new construction techniques, bio-energy, cleantech, agri-food and life and health sciences.

To summarise, matters to consider include:

- does your company have a project?
- is the aim of the project to seek an advance in a field of science or technology?
- does the advance extend overall knowledge or just your company's own state of knowledge or capability?
- were the projects started in the last 2 or 3 years?
- does your project involve uncertainty that a competent professional can't readily resolve and where solutions are not common knowledge?



What costs qualify for R&D relief?

Costs that may qualify include:

- direct and externally provided staff – your company can claim for salaries, wages, Class 1 NIC and pension funding for staff directly involved.
- externally provided staff – these are costs paid to an agency for staff engaged in a project. Relief is usually given at 65% of the payments made to the staff provider.
- subcontracted R&D – again, claims are generally restricted to 65% of costs.
- consumables, software, trials, prototyping – costs applied directly to the R&D activity can usually be claimed.
- independent research costs – only large companies can claim for R&D relief on contributions they make towards funding independent research.

Costs that cannot be included:

- capital expenditure, including the cost of land; although other reliefs may be available.
- expenditure on the production and distribution of goods.
- payments for the use and creation of patents and trademarks.

Finally, if you have received a grant towards a project that is notifiable under State Aid you can't get relief under the R&D scheme. Your grant provider should be able to provide this information.



How much tax relief will a qualifying project attract?

Since 1 April 2015, the relief a company can claim is 230% of their qualifying R&D costs. From the same date, a tax credit can be claimed. If your company is loss making, this tax credit is fully payable subject to certain restrictions. Small or medium sized companies qualify for a tax credit of up to 14.5% of any surrendered loss.

A new cap was introduced on 1 April 2021 that limits the payable R&D tax credit to £20,000 plus three times the total PAYE and NIC liability of the company for the year in order to deter abuse. There are some limited exemptions to the cap.

How do you claim the R&D relief?

The simple answer is you enter the total qualifying expenditure on your company's CT return – arriving at this figure is a more complex matter.

HMRC have posted a brief outline of the issues you will need to consider when making a claim:

- **show that you looked for an advance in the field** - Your project must aim to create an advance in the overall field, not just for your business. This means an advance can't just be an existing technology that has been used for the first time in your sector. The process, product or service can still be an advance if it's been developed by another company but isn't publicly known or available.
- **show there was uncertainty** - You should be researching or developing something that isn't known to be scientifically or technologically feasible when you make or discover it. This means that your company or experts in the field can't already know about the advance or the way you achieved it.
- **explain how you tried to overcome the uncertainty** - You should show that the R&D needed research, testing and analysis to develop it. You need to be able to explain the work you did to overcome the uncertainty. This can be a simple description of the successes and failures you had during the project.
- **show that a professional in the field couldn't work this out** - You should explain why a professional couldn't easily work out your advance. You can do this by showing that other attempts to find a solution had failed. You can also show that the people working on your project are professionals in that field and get them to explain the uncertainties involved.

In conclusion

The ability to more than double the tax relief for the tax-allowable costs associated with your project is a compelling reason to take this relief seriously. For companies who have yet to generate profits from their research, the further feature of R&D relief, to surrender your claim for a refundable tax credit, will provide a much-needed cash flow fillip for your project.

Making a claim for this relief is not a task for the faint hearted. We can help. Before you start a project it is well worth having a preliminary discussion to see if a project is likely to qualify and then organising the paper-trail to facilitate a successful claim.

If you feel that you have an existing project, or a future project that may benefit from a claim, please call.



Summary action list

- Since 2015, it has been possible to apply to HMRC for advance assurance. This means that for the first three accounts claim periods, HMRC will allow the claim without further enquiries.
- A reminder that even if your company is loss making you can surrender an R&D claim for a cash refund, a tax credit.
- The process of making a successful claim is not for the faint hearted. Take advice at the planning stage of your project.

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