

Research & Development Tax Relief - do you qualify?

Research and Development Tax Relief was introduced in 2000 to encourage companies to make advances in science and technology. But, 20 years on, we know that many businesses are not taking advantage of this even though they qualify. Here Ian Kelly, Tax Partner at Davies Tracey, explains further...

Research and Development (R&D) was introduced in 2000, via Corporation Tax (CT) relief, to encourage companies to undertake innovative projects to achieve an advance in knowledge or capability. What many don't realise is that the project does not necessarily have to be successful for R&D relief to be claimed - it is possible to claim relief even if the project fails in its intention.

It is thought that most potential claimants do not pull a claim together assuming that R&D tax relief applies to scientists and their work. This might explain why well over half of the companies potentially eligible for R&D tax relief have never made a claim.

There are two schemes; the **SME scheme** and the **Research and Development Expenditure Credit (RDEC) scheme**.

The SME scheme provides for CT relief of 230% of the qualifying R&D costs; loss making companies are able in certain circumstances to surrender the loss for a payable tax credit.

The RDEC scheme provides a taxable credit of 13% from 1 April 2020 of qualifying expenditure. Loss making companies can claim the tax credit and those with no CT liability can benefit from a cash payment or a reduction of tax or other duties due.

The first consideration is the basic premise as to whether there is a R&D project in place. If so, the next requirement is that the project has to be carrying out research and development work to create a new process, product or service or making improvements to an existing one. The advancement has to increase the knowledge or capability in the whole area of science and not merely the company's knowledge or capability.

There must also be an uncertainty that the project is trying to overcome and has to be something that a 'competent professional' cannot readily resolve and where the solution isn't public knowledge.

What is a R&D Project?

The R&D project can include planning, design, testing and analysis in an attempt to resolve the scientific or technological problem or issue.

The knowledge being sought must not be already available in the relevant field.

The project starts when work to resolve the uncertainty starts and it is established there is currently not a solution to the uncertainty. It will end when the uncertainty is resolved or the work attempting to resolve it ceases by virtue of there being a working prototype, device, produce or process ready to be tested or go into production. It might also be when a decision is taken not to take the project further.

The expenditure on which R&D tax relief can be claimed must be for revenue costs, not capital in nature, and must fall into set categories: employee costs, materials, software and consumables such as water, fuel and power.

Qualifying costs are those related or ancillary activities such as administration and clerical aspects; training in support of the R&D; research in the form of testing, surveys and sampling techniques and feasibility studies to direct the R&D activity and which includes staff costs.

Relief must be claimed within two years of the end of the first accounting period in which the qualifying R&D begins. The R&D claim process should start with a discussion between the claimant company and its accountant when the project should be explained in detail but in a language that can be understood by all. This will permit the accountant to ask questions and then discuss the elements of the costs incurred and shown in the accounts that can be claimed.

The report to be submitted with the claim should include the project's aim, uncertainties experienced and resolved, and demonstrate that the knowledge of how to resolve the uncertainties isn't readily available in the relevant field. The claim then moves on to the calculation of the allowable expenditure, turning this into a R&D relief figure and then claiming the R&D relief due in the body of the company's tax return.

As a tax relief, claims can be the subject of a HMRC compliance check and there has been an increase in this area recently as the tax authority responds to evidence of incorrect claims.

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