



Research and Development (R & D) Tax Relief

A valuable government-backed tax relief that encourages innovation.

Background

Companies carrying out R & D may qualify for significant tax reductions and gain a boost to their cash flow. Loss making companies can even claim back tax not yet paid.

What is it?

R&D for tax purposes takes place when a project seeks to achieve an advance in science or technology (an advance in the state of knowledge in a particular field), scientific and/or technological uncertainties are met in this process and those advances are not readily deductible by a competent professional in the field.

R & D is not limited to endeavours by 'scientists in white coats' and occurs in a wide variety of sectors. Enhanced relief is available on qualifying R & D expenditure.

Who is eligible?

- Limited companies of any size which carry out qualifying R & D and pay UK Corporation Tax (i.e. incorporated in the UK or having a branch or permanent establishment in the UK)
- There are two schemes: Small and Medium Enterprises (SME) and the Research and

Development Expenditure Credit (RDEC) for large companies or those who receive third party funding for their projects.

- An SME for this purpose is a company that exceeds none of these thresholds:
 - Turnover: €100M
 - Gross assets: €86M
 - Employees: 500 full time equivalents

What can the company claim for?

Staff costs

An appropriate percentage of employment costs of those doing the development work and those planning and supervising the project, including salaries, bonuses, Employer's NIC, pension contributions and reimbursed expenses.

Consumables and Software

Costs of consumable items in preparing prototypes and used in testing. Also, expenditure on software licenses and other IT costs to the extent they are used for the development project.

Subcontractors & externally provided workers

For expenditure on Sub-contractors and externally provided workers, 65% of the expenditure can be claimed, which rises to 100% if the subcontractor is connected to the claimant company

Some overheads

A proportion of utility bills if paid directly to the provider.

What is the relief worth to the company?

Loss making companies

An SME company can claim a tax credit in the form of a tax refund equal to 33% of the qualifying expenditure as set out above. This is payable irrespective of whether the company has recently or ever paid Corporation Tax.

Profitable companies

Due to enhanced tax relief available on qualifying expenditure, tax relief of around 25% is available for R & D for SMEs. This reduces the company's tax liability and can create repayments and reductions in amounts payable.

Companies moving from loss to profit

The company may be in a position to enhance or protect losses carried forward to future profits.

Large Company Scheme

The large company scheme offers a flat 'above the line' credit of 12% of the qualifying R & D spend.

How can BGM assist?

Our expert team can take the company through the entire process of an R & D claim:

- Identifying qualifying projects
- Computing relevant expenditure
- Preparing a comprehensive technical report
- Calculating the benefit due to the company.
- Prepare and submit the tax claim along with the company's Corporation Tax return.
- Follow up with any queries raised by HMRC.

The initial consultation is offered free of charge. During this meeting, our experts will determine the viability of a claim and the costs of completion.

For further information, please contact Paul Attridge at paulattridge@bgm.co.uk or your usual BGM partner.

