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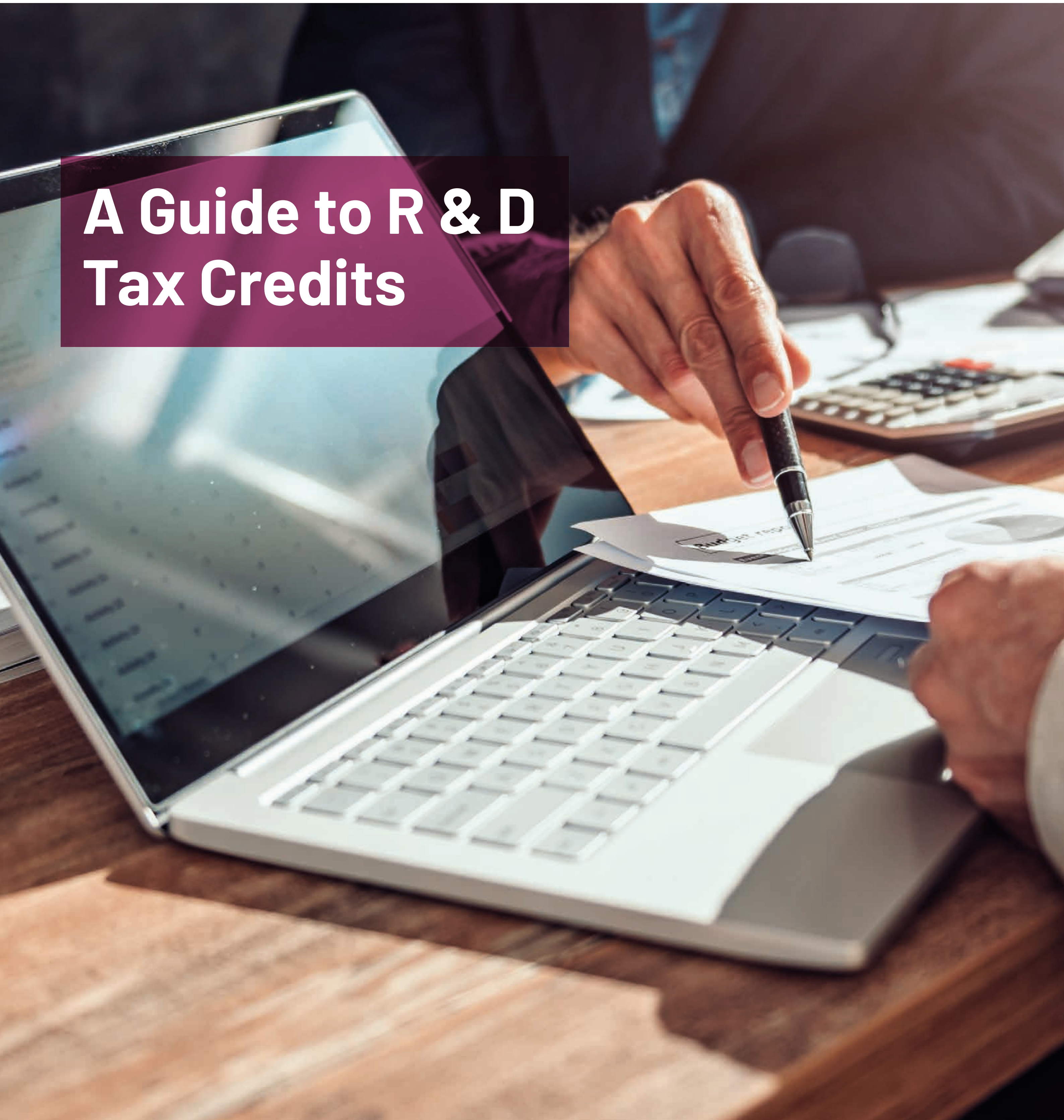

A Guide to R & D Tax Credits

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What must your company be doing?

If your company is attempting to create, extend, incorporate, improve or duplicate a process, material, device, product, system or service which a competent professionals working in that field would not have a readily deducible answer to, or if there is uncertainty that what is being attempted is scientifically possible or technologically feasible, then it's likely that R&D is being undertaken.

Activities can be in any field, new methods of making vegan foods to plaster compounds for listed buildings from blending different flavours of gin to marine ironwork repairs.

The company must be seeking an advance, however turning something which is already established into a more cost effective, reliable, reproducible process, material, device, product or service can also be classed as R&D.

What are the potential risks?

For the company

Whilst the potential for a corporation tax reduction/a tax refund will certainly appeal to the business owner, there is some work to be undertaken.

An R&D tax credits claim is substantiated by business records which a business may not have been keeping as a matter of course.

We will work with you to collate all of the necessary information and whilst in the first year HMRC are easy about the supporting evidence, they will expect records to be kept in order to substantiate future claims. Record keeping will be key to these claims and if the R&D project work continues into the future we will help the business owner to put in place recording systems to have the necessary information readily available for future claims.

We have in-house expertise in the necessary records to be kept and we can suggest simple ways to make record keeping more robust.

HM Revenue and Customs

More Information

HMRC may want more information to satisfy themselves that the claim is in the right amount and that correct records have been kept. The team will handle these questions and will obtain more information as necessary by discussion with the client. The team will handle the correspondence, or any conversations needed with HMRC's Compliance Officer.

Enquiry

There is a possibility that HMRC may open an enquiry into the affairs of the company but it is no more likely to be triggered by an R&D Tax Credits claim than for any other reason. We will only prepare a report and make a claim if the R&D activities undertaken by your company meet the full criteria for a claim to be made and we will support the claim once it is submitted to HMRC.

History

Research and Development (R&D) tax credits were introduced in the UK in 2000 to encourage greater R&D spending by small and medium-sized enterprises (SMEs) and drive investment in innovation in the UK.

If the company does not meet the criteria as a SME there is a second scheme called Research and Development Expenditure Credit (RDEC), which gives a payable credit to the company involved in R&D. This scheme came into effect in 2013 in an attempt to make the company's work in the field of R&D more visible to investors by treating the credit as taxable income in the P&L of the company.

What's the opportunity?

SMEs make up over 99 per cent of all businesses in the UK, and therefore innovation in these businesses is extremely important to the UK economy. It is envisioned that innovation will drive forward the UK's post-Brexit growth and sustainability. It is possible that many companies don't realise the work they do is innovative, ground breaking or simply making appreciable improvements to something that already exists. These companies could potentially be missing out on this vital tax incentive, whether they are currently profitable or not.

If an SME company undertakes R&D activities the costs of working on these projects receive tax credits worth an ADDITIONAL 130% - that's on top of the 100% of the costs already deducted from the company's annual profits.

The result is that 230% of the costs are used to reduce the company's tax liability.

I don't know if my company is undertaking R&D activities

The team are key to spotting which activities can form the basis of a claim for R&D tax credits. We have expertise in assessing the qualifying activities and in writing the professional report which will support the claim.

In a meeting with one of the team, we will be able to ascertain if a claim is relevant and which projects will be beneficial to take forward to report stage.

R&D Technical

All R&D tax incentives exist to encourage investment in innovation.

There are 2 schemes for claiming R&D Tax Credits – one for SME companies and one for companies not meeting the SME criteria.

The SME definition is an EU definition. The intention is to produce a level playing field for all European companies when vying for the location of innovative businesses. The definition used by the UK is slightly different in that all the threshold figures have been increased by UK legislation as follows:

SME criteria

Less than 500 F/T staff members

Turnover is less than £100m

OR balance sheet is less than £86m

If the SME has received a grant or subsidy towards their R&D project or if they have been subcontracted to undertake the R&D project by a large company, they are not eligible for the R&D tax credit scheme but can potentially still claim under the RDEC scheme.

Not meeting the SME criteria

Large companies and those not meeting the SME criteria can opt to claim a tax credit called the Research & Development Expenditure Credit (RDEC).

All R&D tax incentives exist to encourage investment in innovation. Large company investors, looking at the profitability of a company will see the investment in R&D and the positive effect this has on the bottom line whereas a tax credit would not be visible to those making investment decisions.

The RDEC scheme came into effect in April 2013 replacing a previous scheme for larger companies.

This credit is given at a rate of 13% of the company's qualifying R&D costs but the credit is taxable and included in the company accounts as taxable income. The result is the 13% credit suffers corporation tax currently at the rate of 19% meaning the benefit is 10.53% of the costs.

Please do contact us for advice on the complexities of R&D.