

R&D TAX CREDITS

ENHANCED TAX RELIEF AND TAX REFUND OPPORTUNITIES

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For innovative businesses R&D tax credits are a way of claiming tax back from HM Revenue & Customs (“HMRC”). R&D tax credits has now been around for over 15 years yet, by HMRC’s own statistics, the relief is not being claimed as expected, particularly in the SME sector.



For qualifying R&D expenditure incurred from 1 April 2015 profitable SME companies can claim an additional 130% of tax relief – i.e. for every £10,000 spent on qualifying R&D the company can claim an additional £13,000 of tax relief. Where the R&D tax relief claim results in a loss for a SME company, that loss can be “surrendered” for a cash refund from HMRC of up 14.5% of the amount “surrendered”.

For every £10,000 spent on qualifying R&D the company can claim an additional £13,000 of tax relief.

The credit is also available for “large” companies (called the “Research and Development Expenditure Credit” or “RDEC” for short) but is less generous and is calculated in a different way to the SME relief. The rate of the RDEC changed for qualifying R&D expenditure incurred after 1 January 2018 and the effect is that the credit reduces the tax liability of a large company by approximately 9.72% of the qualifying R&D spend (8.91% for R&D expenditure incurred before 1 January 2018) – i.e. for every £100,000 spent on qualifying R&D the tax liability would be reduced by £9,720.

Definition of “SME”

For the purposes of R&D tax credits a SME company is one with less than 500 employees and either:-

- Turnover less than €100m; or
- Balance sheet total less than €86m

There are special rules for groups.

Definition of qualifying activities

The definition of qualifying R&D activities is the same for small and large companies.

Broadly an activity must be seeking to achieve a significant advance in science or technology through the resolution of a scientific or technological uncertainty. A scientific or technological uncertainty exists when knowledge of whether something is scientifically possible or technologically feasible, or how to achieve it in practice, is not readily available or deducible by a competent professional working in the field.

The main costs which can qualify for the R&D tax credits are:-

- Staffing costs attributable to qualifying R&D;
- Software used in the R&D project;
- Consumables items such as fuel, electricity and water used for the purposes of R&D;
- Materials used in the R&D project;
- Certain sub-contractor costs.

Types of company which can claim the relief

A company in any sector can potentially claim R&D tax credits – the key point is whether there are qualifying R&D activities being undertaken. By way of example, some of the sectors we have claimed R&D tax relief for are:-

- Printing – database management, fraud prevention and encryption
- Telecommunications – implementing complex systems
- Manufacturing – innovative products including gearing mechanisms and cutting tools
- Food processing/manufacture – including development of new sauces and fillings
- Software development - including new algorithms, integration and web content filtering
- Construction – new building techniques
- IT infrastructure – managing and processing large amounts of data

How we can help

We have advised on all aspects of R&D from reviewing a company’s activities to establish whether a claim is viable through to producing reports/documentation for submission to HMRC to substantiate claims for the relief.

For more information or to discuss any potential cases, please contact us on

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or email at

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