



Beginners Guide to Research and Development Tax Relief

Research and development is a great tax relief to claim – because the taxman will allow you to claim more relief on this type of expenditure than on any other type of expenditure. All you have to be able to do is substantiate your claim for relief with both a logical justification and records to support the amount of relief claimed. The taxman then doubles the amount of expenditure you can get, compared against other types of expenditure...but only if you are a limited company!



Research and Development is defined for tax purposes in tax legislation (ICTA88/S837A) and the definition cross-refers to accountancy regulation (SSAP13). A full definition is beyond the scope of this Beginners Guide, but the essence of the definition is:

“work to resolve scientific or technological uncertainty aimed at achieving an advance in science or technology. Advances include new or improved products, processes and services.”

Part of the guidance regarding R&D tax relief is that a competent professional working in the field should be of the opinion that the activities carried out are R&D.

The competent professional can be the company’s directors or an outside expert – as long as it is someone who has ‘knowledge about the relevant scientific and technological principles involved’ and has ‘experience and a successful track record’ and is aware of the ‘current state of knowledge’.

One important point to note is that the advance being sought must constitute an advance in the overall knowledge or capability in a field of science or technology, not a company’s own state of knowledge or capability alone.

How much relief do I get?

R&D tax relief is available in two flavours – large company and small company, with small companies getting a generally more advantageous rate of relief – and relief as a reduction in the amount of corporation tax due or as a payment to the company if it is not yet profitable and paying corporation tax. Generally, for small companies the effect of the relief is to double the relief you get on qualifying expenditure. So £10,000 of cash spend is worth a deduction of £20,000 in your taxable profits....or more simply every £10,000 of expenditure is worth an extra £2,000 of tax saving! If you want all of the details then please ask us how this applies to you and your circumstances.

Claiming for R&D Tax relief is widespread and the taxman gave tax relief worth £980,000,000 in 2009.

R&D expenditure

What can you claim for? Firstly, you can’t claim for any costs that are subsidised by a Government grant. Capital costs can be claimed, if they qualify under Research & Development Allowance (which is a form of capital allowance), and you can claim for expenditure on Revenue (ie not capital) costs as follows:

- ⇒ Staff costs (includes salaries, NI contributions, employers pension contributions but not benefits in kind to staff undertaking R&D work).

- ⇒ Materials consumed or transformed.
- ⇒ Water and fuel.
- ⇒ Specially commissioned parts for prototypes.
- ⇒ Software bought specially for R&D work.
- ⇒ Subcontractor costs (unconnected third parties): the amount that can be included within the claim is restricted to 65% of the qualifying costs.
- ⇒ Subcontractor costs (connected parties): the amount that can be included within the claim will be the lower of, the payment that is made to the subcontractor, and the relevant expenditure of the subcontractor.
- ⇒ Clinical trial volunteer costs
- ⇒ A proportion of variable overheads – an appropriate and reasonable apportionment of the expenditure.

Research & Development Allowance

The R&D Allowance for capital expenditure isn't worth as much – it is only 100%, but it is likely to be better than claiming capital allowances under ordinary rules. Qualifying expenditure is direct expenditure on capital items that are part of a R&D project.

The R&D Report

Ideally the taxman wants a R&D Report to be filed with any corporation tax return that claims enhanced expenditure – it is not a legal requirement, but failure to provide such a report will mean that they write and ask the questions that would otherwise be answered in the report. Obviously this information is needed at some point so we need to collate it as part of formulating the claim that goes into the tax return and we can prepare the report for you!

The report should include the following:

- ⇒ A summary overview of the company's business and the R&D projects being carried out.
- ⇒ Commentary on individual projects. This should include details of what stage the projects are at, what the advances in science or technology are, why these are considered R&D qualifying, what the uncertainties are, and the hurdles that need to be overcome. This should also include a review of the current state of knowledge available within the particular field.
- ⇒ Details of the staff and subcontractors being assigned to each project and their expertise.

- ⇒ A summary schedule of the R&D costs splitting these into the categories of staff, consumables, etc.
- ⇒ A schedule providing a detailed breakdown of how the expenditure included within the summary expenditure schedule has been arrived at.

Is what you do qualifying R&D?

Well the next step is to look at what your business does. Do you spend time thinking and working to create something new or to adapt a known technique for a new application or process? The brief definition at the beginning says, it can be work on a product, a process or a service. Have you had to do work to improve a product, process or service and has this involved scientific or technological uncertainty? Importantly, are the directors of the opinion that the work carried out by the company is both innovative and creative or is research that aims to break new ground or to resolve scientific or technological uncertainties.

How we can help you

We can help you to put together the report and information and we can help you to identify what is and is not qualifying R&D – in fact our specialist consultants can do a lot of the work of reviewing R&D with you to make sure that we maximise your claim.

Caveat

This Beginners Guide is no substitute for proper specific professional advice and no liability can be accepted for any acts or omissions taken as a result of reading it.



is an independent firm of accountants, tax advisors and business advisors

114 High Street

Cranfield

MK43 0DG

Tel 01234 752566

Fax 01234 752577

info@vowles.co.uk

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Jonathan Vowles Chartered Accountants