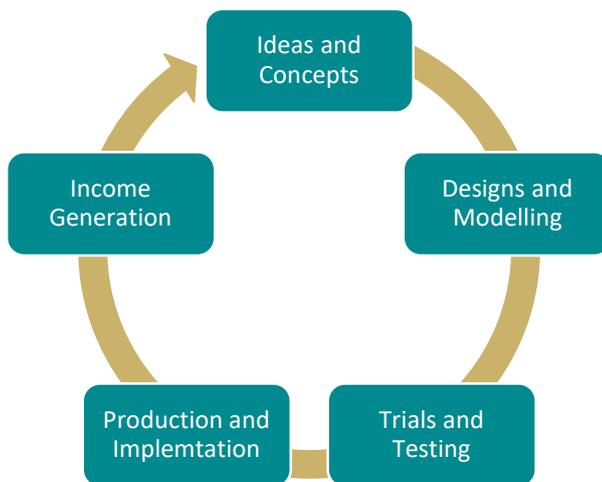




### What is R&D

Research and development is not just a white coat exercise but is the generation of new knowledge, whether that be a new product, process/service, or refining an existing one, R&D is one of the earliest phases.



In context, it is an activity that a company undertakes in order to develop new products, processes or services, or improve one that already exist, and in order to do this, businesses often take on the risk of uncertainty, as they will exist around what they are attempting to do, to see if it is technologically feasible, or they don't know how they will achieve their objectives in practical terms.

So, R&D is an essential for many businesses, looking to launching new products or improving existing ones to a make profit, remain competitive and stay ahead of them game.

### What sectors does R&D occur in?

Research and development occurs across a wide range of sectors and industries, and in companies of all sizes, a few examples:

- Pharmaceuticals
- Architecture/Construction
- Software and technology
- Food industry
- Manufacturing and Engineering

### Types of R&D

#### – Basic Research

Basic research is a theoretical approach to any subject. This goal aims to get complete knowledge and understanding of one special subject, not a practical situation. This research is also called pure or fundamental research.

#### – Applied Research

This goal aims to get complete knowledge and understanding of one special subject in a practical situation. This research is an inverse of basic research. This research is formulated to solve a practical problem.

#### – Development Research

This Research is a combination of applied and basic research. This research will be implemented after getting knowledge and understanding of a specific task/subject from the basic and applied research.

### R&D Outcomes

#### New Product

R&D and product development for often than not, go hand in hand and various concepts will be built and these can then be prototyped for further research and testing, before finalising the product.

#### Improving existing products and processes

The evaluation of existing products, services and processes can be a key part of R&D. If it is no longer profitable, competitive, or adding value in an industry then it risks becoming obsolete.

It could also be that technology has been developed that could help improvements that may cut costs, make efficiency gains, or improve safety. This can include improvements to the manufacturing and production processes of the product.



### Am I eligible to claim a research and development tax credits?

To be eligible for the [R&D tax relief for SMEs](#), your company must have:

- Less than 500 employees, and either
- Turnover below 100 million Euros, or
- Assets below 86 million Euros.

Where you have qualifying expenditure that has been incurred on R&D projects, allowable costs are increased by an additional 130% for tax purposes. So, for every £100 spent, £230 can be deducted from your profits when calculating tax.

### Eligible R&D Expenditure

Revenue expenditure includes the following costs which can be included in your R&D claim:

#### Staffing costs

- Gross salaries (including wages, overtime pay and cash bonuses).
- Employer NI contributions.
- Employer pension contributions; and
- Certain reimbursed business expenses.
- Any benefits in kind, such as private medical cover but not company cars.

You cannot include director dividends, if directors considerable contribute to an R&D project always speak to your accountant to assess.

### SME R&D tax credits and subcontracted R&D

You can include expenditure on subcontractors that were involved in R&D projects in your R&D tax credit claim. For 'unconnected' subcontractors, payments that are linked to R&D activities are restricted to 65% for the purposes of the claim. For 'connected' subcontractors, the rules are more complex and are based on the nature of the subcontractor's expenditure.

### Externally Provided Workers (EPWs)

Externally provided workers (EPWs) are individuals provided to your company through a staff provider. EPWs must work through this staff provider instead of contracting directly with your company as individuals. Common examples include agency staff, contractors, and freelancers.

EPWs must work under the supervision, direction, or control of you as the claiming company, in carrying out R&D activities. A suitable apportionment should be applied to the expenditure if an EPW carries out both R&D and non-R&D activities.

For 'unconnected' EPWs, payments that can be included in your R&D tax credit claim are restricted to 65% – and special rules apply for connected EPWs.

### Consumables

Materials that are consumed or transformed in your R&D process are defined as consumables: this category includes water, fuel, and power. Your expenditure on the materials consumed or transformed in the R&D process may be included in your claim. Common examples include materials for the construction of prototypes or for use in trials.

### Software

Your revenue expenditure on computer software involved in R&D activities may be included. As for other categories, software partly used for R&D can be included at a reasonable apportionment.

### Payments to the subjects of clinical trials.

This cost category typically only features in the pharmaceutical industry. Where companies pay people who are involved in clinical trials to test the efficiency of drugs as part of an R&D project. This expenditure can be included in the R&D claim.

If you are not sure whether your costs qualify, we are here to help.



### How much is an R&D tax credit claim worth?

When you deduct your enhanced expenditure from your taxable profits, or add it to your loss, it will result in:

- A Corporation Tax reduction if you are profit-making. Saving incentive is up to £25%
- A cash credit if you are loss-making Saving incentive is up to £33%
- Or it could be a combination of the two.

The average claim made by SMEs in the UK is £51,222 (2019-20).

### Is there a CAP on what I can Claim?

From 1 April 2021, a new restriction applies to the payable R&D tax credit available to loss making SMEs.

HMRC have confirmed the following exemptions to minimise the impact of this anti-abuse measure on genuine businesses:

- A company making a small claim for payable credit below £20,000 will not be affected by the cap.
- A company will be able to include related party PAYE and NIC liabilities attributable to the R&D project when calculating the cap and these will be subject to the 300 percent multiplier; and

A company's claim, of any size, will be uncapped if it meets two tests:

- That a company's employees are creating, preparing to create or actively managing intellectual property (IP)
- and that its expenditure on work subcontracted to, or externally supplied workers provided by, a related party is less than 15 percent of its overall R&D expenditure.

### Come and talk to us about exploring the R&D tax credit

It can be possible that your company has been carry out Research and Development work without even realising it, and if this is the case then substantial tax relief or cash injection could be lost.

So come and chat through your projects and ideas and we will be able to let you know if your R&D work is eligible and can help you to prepare the complex claims documentation.

We have successfully claimed for a number of clients over the years.

[Contact us](#)