

# R&D TAX CREDITS ExplAINED

## TAX CREDITS 4 U

**R&D TAX CREDITS 4U LTD**

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## 1) What is it?

- Corporation Tax relief you can claim on your Research and Development (R&D) project
- It supports companies that work on innovative projects in science or

## 2) Who can claim?

- Companies that seek to research or develop an advance in their field

## 3) What projects count as R&D?

- It must be a specific project to make an advance in science or technology.
- It must relate to your company's trade:
  - an existing one
  - one you intend to start up based on the results of the R&D
- It may research or develop a new process, product or service or improve on an existing one
- It can be an unsuccessful project
- It must meet HMRC's definition of R&D
- It cannot be an advance within a social science - like economics - or a theoretical field - such as pure maths

## 4) How to explain your project?

- How has your project looked for an advance in science or technology?
- Did your project have to overcome uncertainty?
- Has your project tried to overcome uncertainty?
- How your project could not easily be worked out by a professional in the field?

## 5) What are advances in the field?

- Your project must aim to create an advance in the overall field, not just for your business
- The advance cannot just be an existing technology that has been used for the first time in your sector

- The process, product or service can still be an advance if it's been developed by another company but is not publicly known or available

### 6) How to show a professional in the field could not work this out?

- Show how other attempts to find a solution have failed
- Show that the people working on your project are professionals in that field and can explain the uncertainties involved

### 7) How to show there was uncertainty?

- Show how an expert on the subject cannot say if something is technologically possible or how it can be done - even after referring to all available evidence
- This means that your company or experts in the field cannot already know about the advance or the way you achieved it

### 8) How to show you tried to overcome the uncertainty?

- Show that the project needed research, testing and analysis to develop it
- Explain the work you did to overcome the uncertainty
- Show the successes and failures you had during the project

### 9) What type of R&D relief can you claim?

- This depends on the following:
  - The size of your company
  - If the project has been subcontracted to you

### 10) Who can claim SME R&D Relief?

Companies with:

- Staff < 500
- Turnover < €100m
- Balance sheet < €86m

### 11) What is SME R&D Relief?

- 100% deduction of qualifying costs
- PLUS an extra 130% deduction of qualifying costs
- Total 230% deduction from your yearly profit

- If the company is loss making - claim a tax credit, worth up to 14.5% of the surrenderable loss

### 12) Who can claim Research and Development Expenditure Credit (RDEC)?

- Large companies working on R&D projects
- SMEs and large companies who have been subcontracted to do R&D work by a large company.

### 13) What is RDEC?

- RDEC is a tax credit:
  - 12% of your qualifying R&D expenditure from 01/01/2018 to 31/03/2020
  - 13% of your qualifying R&D expenditure from 01/04/2020
  - If your company is profit or loss making the credit may be used to discharge the liability or get a cash payment

### 14) What is Qualifying Expenditure?

- Staff Costs
  - Salaries
  - Class 1 National Insurance Contributions
  - Pension fund contributions
  - Administrative or support staff who directly support a project
  - 65% of relevant payments made to an external agency for providing staff
  - Exclude costs for clerical or maintenance work that would be done anyway eg payroll bureau costs
- Software costs
- Subcontractor costs if undertaken by:
  - A charity
  - A higher education institute
  - A scientific research organisation
  - A health service body
  - An individual or partnership of individuals
- Consumable items

- Materials
- Utilities
- Costs that cannot be claimed:
  - Production and distribution of goods and services
  - Capital expenditure
  - Cost of land
  - Cost of patents and trademarks
  - Rent or Rates

### 15) What period can you claim for?

- The project starts when you begin working to resolve the uncertainty:
  - Identify the technical issues that need to be resolved
  - Make sure there is not an existing solution
- The project ends when you solve the uncertainty or stop working on it. The period you claim R&D expenditure credit for should end once you have a working prototype that solves the problem, and before you go into production.
- Your R&D may restart if you find another scientific or technological uncertainty after you have started producing the product. If this happens, you can claim for another period of R&D while you try to resolve it.
- **You can make a claim up to 2 years after the end of the accounting period it relates to.**

### 16) How to calculate RDEC?

We will calculate your expenditure as follows:

- Work out the costs that were directly attributable to R&D.
- Reduce any relevant subcontractor or external staff provider payments to 65% of the original cost.
- Add all costs together.
- Multiply the figure by 12% to get the expenditure credit.
- Enter this figure into your tax return.

### 17) How to claim RDEC?

- We will claim the credit by entering your expenditure into the full Company Tax Return form (CT600).
- If your claim covers a period of 12 months or more, we will submit a separate claim for each accounting period.
- We will send all information to HMRC online to support your claim.

### 18) What you will need to provide to support your claim?

We will produce a short summary that explains how your project:

- meets HMRC's definition of R&D
- looked for an advance in science or technology and aimed to achieve this advance
- had to overcome scientific or technological uncertainty, and how you overcame this uncertainty
- could not easily be worked out by a professional in the field

If you are claiming the credit on:

- one to three projects, we will include details of all projects
- 4 or more projects, we will include detailed descriptions of at least 3 projects ( up to a maximum of 10), which between them cover 50% or more of your total qualifying R&D costs

We will need:

- the start and end dates of the accounting period relating to the R&D activity - these should be the same dates as the period covered by your CT600 return
- details of your qualifying R&D costs

### 19) How to apply the credit?

We will complete the following steps to apply RDEC:

1. The credit must be used to settle your Corporation Tax liability for the accounting period. However, you'll need to pay Corporation Tax on the credit. If the credit means you are due a repayment for Corporation Tax that has already been paid, the interest will be calculated on a last in, first out basis.
2. If you have RDEC remaining after step 1, the amount is reduced by applying a notional tax charge to it. The notional tax charge must be based on the main rate of Corporation Tax for the accounting period. If the amount remaining after step 1 is higher than what the value of the total credit minus the notional tax charge would have been, you must use the value of the total credit minus the notional tax charge in step 3.
3. The credit must not be higher than your company's total expenditure on R&D workers' PAYE and National Insurance contributions for the accounting period. The amount over this limit will be added to any expenditure credit in the next accounting period.
4. The remaining amount is used to pay any outstanding Corporation Tax liabilities for any accounting periods.
5. The credit can be surrendered in whole or part to any group member.
6. The credit can be used to discharge any other company liabilities, like VAT or liabilities under a contract settlement.
7. The final amount can be paid to your company.