



Research & Development Tax Credits

With the average company claiming in excess of £50,000, can you afford to miss out?

Research and Development ("R&D") tax credits can be a very valuable asset for companies* who may not actually believe that the activities they undertake on a daily or project by project basis, are defined as eligible R&D in its purest sense.

The term 'R&D' sparks images of employees wearing white coats conducting experiments in laboratories, and whilst such projects would likely qualify for the credit, so will a multitude of other projects in a wide range of industries.

Examples of industries that may involve eligible R&D are detailed below:



MANUFACTURING AND
ENGINEERING



FOOD AND
BEVERAGE



SOFTWARE
DEVELOPMENT



AGRICULTURE



CONSULTING



MEDICAL

**(individuals or partnerships are not eligible)*

So, what is R&D?

For a project to qualify for R&D tax credit purposes, it must seek to achieve an advance in overall knowledge or capability in a field of science or technology that couldn't be easily overcome by a competent professional in that field.

This could be anything from the development of a new process, a piece of machinery, or a piece of bespoke software, and should be innovative or attempt to overcome uncertainty that exists as part of the development process.

And whilst improvements to existing science, technology products or processes can qualify, simply applying an existing technology to a new industry or sector does not qualify for R&D tax credit purposes.

In short, if you are creating a product, undertaking extensive design work, or delivering a solution that involves resolving complex uncertainties, you could be undertaking qualifying R&D activities.

What costs can I claim?

■ *Staff*

A project qualifying for R&D tax credits will usually be time intensive and, as such, it is likely that your employees will be dedicating a significant proportion of their working week to it. Credit can be claimed for the relevant proportion of the costs of employing staff actively engaged in the R&D activity i.e. for salary, pension and employers National Insurance costs.

■ *Materials consumed during the R&D process*

This could include materials used in testing, energy or the costs of constructing prototypes.

■ *Qualifying Indirect Activities*

For example, training, research, security (where directly relevant to the project) can also be included within a claim.

■ *Payments to third parties who provide staff to assist in the R&D process*

Not every problem can be resolved in house, so if you require an outside specialist to assist in a certain area of the project, these costs can qualify for the relief, albeit at the reduced rate of 65%.

■ *Capital expenditure*

Any capital expenditure incurred on qualifying R&D may qualify for capital allowances at a rate of 100% which can be useful if the annual investment allowance has already been fully utilised. An example would be a laboratory, or a specialised kitchen used in the creation of new recipes.



The corporation tax benefits

The amount of credit that can be claimed is dependent upon the size of your company as there are two categories of R&D tax credits available.

PROFIT MAKING SME'S

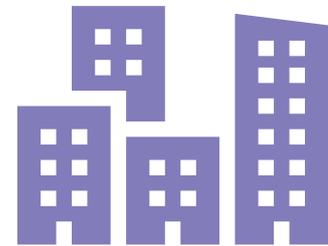
LOSS MAKING SME'S

LARGE COMPANIES



Save £4.37
of every £10
spent

Save £3.33
of every £10
spent*



Save 97p of
every £10
spent

For small and medium sized entities ("SMEs"), 230% (100% deduction + 130% enhanced R&D deduction) of the qualifying expenditure can be deducted from the profits chargeable to corporation tax.

If the company makes a loss for tax purposes, it can surrender the loss generated as a result of the R&D expenditure for a repayable tax credit at 14.5%.

Taxable credit of 12% of the qualifying expenditure is applied, which is offset against the company's tax liability for the year.

Can I claim for past or failed projects?

A claim for R&D tax relief can be made at any time within two years of the end of the accounting period in which the expenditure was incurred, so even if you have already filed your tax return for the relevant year, it may still be possible to make a claim.

Even if the project was not successful, this does not stop a claim being made. So long as the project was a qualifying project, lack of success will not prevent relief being available, indeed it is a demonstration that uncertainty existed and could not be resolved so is a good thing for R&D purposes!

How can we help?

Our team has considerable experience assisting a variety of clients with R&D tax credit claims. We can work with you to submit the best possible claim for your company, ensuring the optimum outcome.

If you think your company may be undertaking R&D and you wish to discuss this matter further, please get in touch with Gary Devonshire who leads our R&D team, or get in touch with a member of our dedicated tax team, using the details overleaf.

* This will be restricted from 1 April 2020 to three times the companies PAYE/NIC bill for the period of claim.

Get in touch

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