

RESEARCH AND DEVELOPMENT TAX CREDITS

2023



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

Research and Development (“R&D”) tax relief 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.

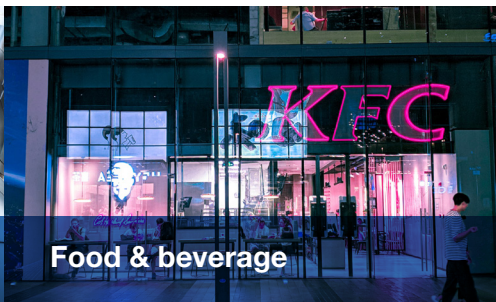
The term ‘R&D’ sparks images of employees wearing white coats conducting experiments in laboratories, and whilst such projects would likely qualify for the relief, so will a multitude of other projects in a wide range of industries.

**(individuals or partnerships are not eligible)*

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



Manufacturing & engineering



Food & beverage



Software development



Agriculture



Consulting



Medical

What is R&D?

For a project to qualify for R&D tax relief 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 relief 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 relief will usually be time intensive and it is likely that your employees will be dedicating a significant proportion of their working week to it. Relief 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. Some activities that form part of a project but do not directly contribute to resolving R&D may also qualify, such as maintenance, training, administration, research and finance duties.



Materials consumed during the R&D process

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



Software development

Advancements in computer science and IT may be eligible for R&D relief. Examples of qualifying software include AI and machine learning, Cloud computing, augmented reality, data processing, robotics and storage technologies.



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%.

Corporation tax benefits

The amount of relief that can be claimed is dependent upon the size of your company, as there are two categories of R&D tax relief available, and the timing of your claim. Tax rate changes came into force on 1st April 2023, meaning R&D claims made after this date are subject to different rates than those made before.

	Amount of tax credits that can be claimed	
	Before 1st April 2023	1st April 2023 onwards
Profit making SMEs Deducted from profits chargeable to corporation tax	230% <i>(100% deduction + 130% enhanced R&D deduction)</i>	186% <i>(100% deduction + 86% R&D deduction)</i>
Loss making SMEs Claimed as a % against the surrenderable loss	14.5%	10% <i>(14.5% for R&D intensive companies*)</i>
Large companies % of qualifying R&D expenditure, offset against annual tax liability	13%	20%

*An R&D intensive company is defined as having 40% or more of its total expenditure being spent on eligible R&D.

Common questions

April 2023 – what has changed?

From April 2023, the Corporation Tax rate increased to 25% for companies with profits over £250,000. The 19% rate has become a small profits rate payable by companies with profits of £50,000 or less. Companies with profits between £50,001 and £250,000 now pay at the main rate reduced by a marginal relief, providing a gradual increase in the effective corporate tax rate.

A number of changes to the R&D tax relief scheme were announced in the Government's Spring Budget 2023, with SMEs facing a significant reduction in the reliefs available to them.

From 1st April, the 130% rate of enhanced deduction decreased to 86% and the R&D tax credit rate that could be applied to qualifying losses decreased from 14.5% to 10%. The changes aim to reduce the number of fraudulent claims, making the application process more efficient for legitimate claimants.

The Research and Development Expenditure Credit (RDEC) rate also changed in April, increasing from 13% to 20%.

In addition to rate changes, there have been amendments to the administrative process. All R&D relief claims must now be submitted digitally and accompanied by a compulsory additional information form. If a company has not made an R&D claim in the previous three years, it will need to notify HMRC of its intention to make a claim within six months of the end of the period of account to which the claim relates.

Can I claim for past or failed projects?

Claims 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. Even if you have already filed your tax return for the relevant year, it may still be possible to claim.

Claims can also be made for unsuccessful projects. Provided it was qualifying, lack of success will not affect the claim – it demonstrates that uncertainty existed and could not be resolved, a good thing for R&D purposes!

What is RDEC?

The Research and Development Expenditure Credit (RDEC) is a tax incentive for large companies, SMEs that act as subcontractors to large companies and SMEs in receipt of grants or other government aid. From 1st April, the RDEC rate increased to 20%, as the government aims to 'improve the competitiveness' of the scheme.

Is capital expenditure eligible for R&D?

Capital expenditure is not eligible for R&D tax relief, however Research & Development Allowances (RDAs) can provide a tax deduction for relevant 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. Examples would be a laboratory or a specialised kitchen used in the creation of new recipes.

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 our R&D tax manager Piers Pye-Watson using the details overleaf.

Get in touch



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