

R&D Tax Credits Explained



Claim back up to 33.35% of your research and development costs

What are R&D Tax Credits?

Research and Development (R&D) Tax Credits, reward companies that are developing new, or improving existing products, processes, materials, devices or services with a cash credit or corporation tax deduction by allowing them to recover their eligible costs.

R&D Tax Credits are a key UK Government backed tax incentive designed to encourage companies to invest more into R&D. The UK scheme is one of the most generous tax incentives in the world with companies being able to claim back up to 33.35% of their R&D costs.

Who can claim R&D Tax Credits? – SMEs and Large Companies

The R&D tax relief program has two distinct schemes, one for small or medium sized enterprises (SMEs) and another for large companies. Only companies that are subject to UK corporation tax can benefit from the scheme however, this does not exclude those that are loss making or mean that the R&D has to have been performed in the UK. There are no restrictions on which industry sectors can apply.

The definition of an SME for R&D tax purposes is a company (or group) that has fewer than 500 employees and a turnover below €100 million or gross assets of less than €86 million. A company isn't an SME if it is part of a larger enterprise that, when taken as a whole, would fail this test. A company or group which exceeds the SME thresholds is considered a Large Company.

What are the key benefits of R&D Tax Credits?

- SMEs:**
- Profitable Companies – receive a tax reduction of £26K for every £100K spent on eligible R&D
 - Loss-making Companies – receive a cash payment from HMRC of £33K for every £100K spent on R&D

- Large Companies:**
- Receive £11k cash credit, for every £100K spent on eligible R&D
 - Can still claim if loss making

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What projects are eligible for R&D Tax Credits?

In order to be eligible to claim, a company must be performing work that meets HMRC's definition of 'Research and Development' which is much broader in scope than often perceived. The company must also be incurring revenue expenditures relevant to its trade. Eligible projects must exhibit a level of either scientific or technical uncertainty that a competent professional in the field needs to attempt to resolve in order to try and come up with a solution. The success of an R&D project does not determine whether or not it is eligible for R&D tax credits.

How do you claim R&D Tax Credits?

A claim for R&D Tax Credits can be submitted as part of a Company's Tax Return. Before making a claim it's advisable to involve R&D staff in the process to help identify qualifying activities and expenditure. Although it's not a legal requirement, HMRC encourages companies to tell them why the company or organisation considers its project(s) to be allowable as R&D and provide a summary of the costs incurred on the R&D and how the figures in the return were arrived at.

As there is a wealth of advice now freely available on how to claim R&D Tax Credits, some businesses choose to prepare and submit their own claims or rely on their accountants to do so. However, many companies now recognise the added value they can receive by outsourcing their claim work to a specialist company who are experts in this field.

What are the issues in claiming R&D Tax Credits?

The reality is that R&D tax credits are a very niche area of tax and accountancy and the claim process can be time-consuming and potentially costly for the untrained eye. Although many companies successfully claim, many are not receiving their full entitlement and are unaware they are under-claiming. In addition, every year a significant number of businesses are incorrectly advised that they are not eligible to make a claim when in fact they are.

One of the key reasons that businesses under-claim is that their claims are prepared by an in-house or external accountancy professional who does not have the technical or scientific knowledge necessary to be able to accurately apply the rules in order to maximise a claim. Accurately preparing a claim to ensure maximum return requires technological, scientific, costing and taxation expertise – a combination of specific skill sets which not all businesses or accountancy firms will have.

If you believe your business is already successfully claiming it's important to undertake regular reviews to check you are taking advantage of the latest interpretations of the rules, particularly if you are consistently receiving back all you have claimed for. Equally, if you've been advised your business isn't eligible to make a claim it's worth getting a second opinion.

R&D Funding Group helps businesses across the UK access and maximise R&D Tax Credits and Grant Funding. Call today for a FREE, no-obligation consultation.

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