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Focus on

Research and development tax relief scheme

Many companies are missing out on valuable allowances available to them by not claiming research & development tax incentives.

Research and development (or R&D) has a much wider definition than many people think; your business might be eligible for significant tax benefits.

Making an R&D claim can improve your company's cash flow by reducing tax liabilities or, in some cases, obtaining repayments.

The reliefs available are generous, but claims must be properly made to ensure they meet HMRC requirements.



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Reliefs

For most enterprises the main relief available is in respect of revenue expenditure, and as set out in the table below, this becomes even more generous from 1 April 2012:

	Pre 01/04/12	Post 01/04/12
Tax relief on R&D	200%	225%
Minimum R&D spend	£10,000	£Nil

In addition, if a company is loss making, it may be able to claim a cash refund equal to 14% of the R&D claim (subject to certain limits).

Example:

Company A spends £20,000 in 2011/12 on R&D. It can claim tax relief on £40,000 (£45,000 from 1 April 2012). If Company A pays corporation tax at the small company rate of 21% (20% from 1 April 2012), tax relief on the R&D spend is £8,400 (£9,000 from 1 April 2012), giving an effective cost of R&D of £11,600 (£11,000 from 1 April 2012).

If the company was loss making it would be able to claim a cash refund of £5,600 (£6,300 from 1 April 2012).

Criteria

Firstly, there must be a technological advancement, and secondly, there must be an attempt to resolve a technological uncertainty.

What is a technological advancement? It is not enough that your new product is commercially innovative; it must be an extension to the existing body of technological achievement, or make an appreciable improvement to an existing process, device, product or service.

What is a technological uncertainty? It is the practice of taking a technologically feasible idea and turning it into a cost effective and reproducible process, device, product or service.

Eligibility

R&D credits are awarded for work that directly contributes to the resolution of that technological uncertainty. The key word is 'direct' and not all technical work in the lifecycle of a project will be eligible. A project does not have to actually achieve its aims to qualify.

Experience has shown that R&D extends beyond 'traditional' research activities in laboratories and development centres from start-ups with radical new ideas, to larger more established companies which are engaged in innovating an existing or new product or process.

Review

If you are involved in R&D work, or are contemplating an R&D project, it is important to critically review what you are trying to achieve to establish whether R&D tax relief is available. Whatever R&D you are undertaking, it is important to be able to support any tax claim with a high level document, written in terms understandable by a non-expert, detailing the project and clearly indicating why the requirements mentioned above are met.

Due to the generous nature of the relief, HMRC reviews all claims carefully, and it is important to work with experienced advisors to ensure any claim meets the necessary criteria.

Contact

If you would like any assistance in analysing your R&D activity to see if the tax credits are due please email: info@mhllp.co.uk or contact your local office:

www.macintyreHUDSON.co.uk/offices