

FOCUS ON

# Research and development tax relief - SME

The Government is committed to encouraging research, development and innovation within the UK economy.

To create an attractive regime for companies to develop and exploit intellectual property in the UK - particularly among smaller firms - it is continuing to support the tax credit regime for those that invest in research and development (R&D). R&D has a much wider definition than many people think - remember that the Government wants your company to carry out research and development, and it wants you to claim R&D tax relief!

R&D tax relief can improve your company's cash flow by reducing its tax liability and, in some cases, by obtaining an additional tax repayment (R&D tax credit).

R&D tax relief is only available for companies - and there are two different R&D tax relief schemes depending on the size of your company.

The scheme outlined below is available for small and medium-sized companies (SMEs) - those with either annual turnover of €100m or less, or a balance sheet figure of €86m or less, and no more than 500 employees.

## What relief is available?

R&D tax credits can be claimed on the cost of employing staff who are directly or actively engaged in carrying out the R&D, the cost of the materials that are used in the R&D and on payments made to subcontractors that are assisting with the R&D.

A business can claim relief in one of two ways. It can set 230% of its qualifying expenditure against taxable profits, that is, it can reduce the amount of the profits on which it has to pay tax by an additional 130% of the qualifying R&D spend.

Or if a business makes a loss, it can take advantage of the credits by claiming a 33.35p per £1 cash refund on the qualifying R&D expenditure (which equates to a rate of 14.5p per £1 on the enhanced expenditure).

“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.”



## Example

A company spends £20,000 during 2016/17 on qualifying R&D. In addition to the standard tax relief for the expenditure, it can claim relief on an additional £26,000 (£20,000 x 130%). If the company pays corporation tax at 20%, the total tax relief on the R&D spend is £9,200 (£20,000 + £26,000, at 20%). This means that the net tax cost to the company of incurring the expenditure is £10,800 (£20,000 less £9,200).

If the company were loss making it would instead be able to claim a cash refund of £6,670 (£20,000 x 33.35% or £46,000 x 14.5%).

## What are the qualifying criteria?

What actually constitutes R&D is wide ranging, but includes the development or improvement of a product or process - there must be a technological advancement and 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.

Note that a project does not have to actually achieve its aims to qualify for R&D tax relief.

R&D claims are commonly made by businesses in the engineering, pharmaceutical, healthcare, software development, energy saving and biotechnology fields, but successful claims have also been made by some of our architect, manufacturing, design engineers and construction clients too!

## Can I get help to establish my R&D tax relief claim?

The tax relief available is generous, but claims must be properly made to ensure they meet HMRC requirements. HMRC will review all claims carefully - so it is important to work with experienced tax advisors to ensure any claim meets the necessary criteria.

Any business that wishes to claim R&D tax credits should consult with its accountants or professional advisers.

MHA MacIntyre Hudson has significant experience in preparing and submitting R&D claims in a wide variety of industries and has developed excellent relationships with the relevant inspectors at HMRC to enable claims to be agreed in the most efficient manner.

## Contact us

For further information, please contact your local office or email us at [info@mhllp.co.uk](mailto:info@mhllp.co.uk)



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