

FOCUS ON

R&D Tax Relief for Charity Subsidiaries

Historically, Research & Development (R&D) tax relief has never been claimed by trading subsidiaries of charitable bodies as all profits can be 'gift aided' up to the parent charity and therefore wider corporation tax planning is generally not considered necessary.

However, this relief can reduce the gift aid payments required or even create a cash repayment – both of which can be highly attractive to eligible charities.

Background

R&D tax relief is a relief for companies, including charities and their trading subsidiaries, where they are undertaking any R&D activities. This note focuses on trading subsidiaries. For information on Charities themselves please read our Focus On R&D Tax Relief for Charities.

For the trading subsidiaries there are two different schemes, depending on the size of the charity, with differing rules and benefits. In general terms, for profitable subsidiaries it reduces the taxable profits (and thus the gift aid payment to the charity parent to "strip" the profit is reduced) and for loss making subsidiaries it may generate a cash payment. However, if the charity is large, it is also possible to obtain a cash refund for profitable subsidiaries.

A large charity is one that, including all its associated companies and organisations, has either more than 500 employees, or has turnover exceeding €100m and gross assets exceeding €86m.

Small and medium charities

If the trading subsidiary is profitable, R&D tax relief can reduce its taxable profits, and therefore reduce gift aid payments by 125% (130% from 1 April 2015) of the R&D

costs. If the subsidiary is loss making, R&D tax relief can either:

- Increase its losses to carry forward, to reduce future gift aid payments by 125% (now 130%) of the R&D costs
- Surrender the relief for a cash refund of up to 32.6% (33.35% from 1 April 2015).

Large charities

If the trading subsidiary is profitable, R&D tax relief can:

- Reduce gift aid payments by 40% (44% from 1 April 2015) of the R&D costs,
- Create a cash refund of 8% (8.8% from 1 April 2015) of the R&D costs, or
- Can be used to create a combination of these (for example reduce gift aid payments by 20% and create a 4% cash refund).

If the subsidiary is loss making, R&D tax relief can:

- Increase the losses to carry forward, to reduce future gift aid payments by 40% (now 44%) of the R&D costs,
- Create a cash refund of 8% (now 8.8%) of the R&D costs, or



- Can be used to create a combination of these.

A key issue is that in order to claim the cash repayment, the trading subsidiary needs to employ staff.

What are the qualifying criteria?

What actually constitutes R&D is wide ranging but there must be:

- a technological advancement (i.e. it is a new product or a process or an appreciable improvement over what is currently available), and
- an attempt to resolve technological uncertainties (i.e. there must be difficulties and challenges).

We have experience of claiming R&D Tax Relief in a wide variety of industries on products, processes and systems. Note that a project does not have to actually achieve its aims in order to qualify.

Qualifying costs

The costs that qualify are:

- staff costs (i.e. gross salary, employer's NIC, bonuses and pension costs),
- consumables (anything that is used up in the process) and
- software licences.

Costs paid to third party subcontractors are eligible for small charities, but only certain ones are eligible for large charities.

The need for professional advice

The tax relief available is generous, but claims must be properly made to ensure they meet HMRC requirements. In particular, care needs to be taken over contractual terms and structuring as HMRC will review claims carefully. MHA MacIntyre Hudson has significant experience of preparing and submitting R&D claims, and from this we would advise it is important to work with experienced advisors to ensure

any claim meets the necessary criteria.

To assist our clients we have developed a simplified methodology for charities to benefit from this relief. We also have excellent relationships with the relevant Inspectors at HMRC to enable claims to be made and agreed in the most efficient and cost effective manner.

MHA MacIntyre Hudson

MHA MacIntyre Hudson is a medium-sized accountancy practice, listed in the UK Top 20 and are one of the fastest growing firms in the UK. We won the National Firm of the Year award at The British Accountancy Awards 2013 and are shortlisted in 2014 for both this award and the award for tax team of the year.

Our Not for Profit team works nationally through MHA which acts for over 1,600 charities and has had top five rankings in the Charity Finance Audit Survey for the last seven years. The team includes several individuals with national reputations in the sector.

Contact us

If you would like more details about the opportunities noted above, please contact either Tom Byng or Sudhir Singh or your usual MHA MacIntyre Hudson contact.



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