

Research & Development (R&D) Tax Relief

Factsheet

WHAT IS R&D TAX RELIEF?

R&D Tax Relief is a tax break introduced by the government to encourage businesses to be more innovative, which it is hoped in turn will lead to an increase in the overall competitiveness and technological advancement of 'UK PLC'.

There are two variations of the relief, one for large businesses and one for SMEs. This factsheet focuses on the SME reliefs available.

WILL I QUALIFY FOR R&D?

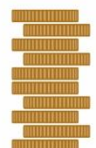
Many people instinctively think that R&D relief only applies to those businesses in, for example, the pharmaceutical sector and the like, but this is only a narrow application of R&D relief and the relief potentially applies to a wide range of sectors and activities.

A great deal of complex tax legislation essentially boils down to one main criteria: Has your business activity *'overcome a technical uncertainty'*. If the answer to this question is yes, then you are well on your way to claiming R&D relief.

You can also claim R&D tax relief even if your underlying R&D activity ultimately didn't prove to be successful.

Presently R&D relief can only be claimed by companies. It cannot be claimed by sole traders, partnerships or LLPs.

Typically the main expense type in the P&L that businesses spend on R&D will be the wages of those personnel engaged in the R&D activity.



HOW MUCH TAX RELIEF CAN I CLAIM?

The relief is an enhanced deduction against taxable profits of 130% of the qualifying R&D expenditure.

Example

Assume a business qualifies for R&D activity on one of its projects. The wage bill of the staff engaged in the qualifying project is £50k.

In the absence of R&D relief the company will save £10k of corporation tax in any case on the £50k wage bill (£50k @ 20% corporation tax rate).

- Under the R&D relief rules the £50k of wages will now give rise to an **additional tax saving** of £13k, on top of the existing £10k relief!

SMEs with losses that are enhanced by the R&D claim, or those with profits which then end up as losses following a successful claim can 'surrender' the losses to HMRC for cash, (at a rate of 14.5%) rather than wait until future profitable periods to offset tax bills, which may often be many years into the future.

Example

Assume the same facts as the example above. However in this instance the company is at an overall breakeven tax position for the year, including the £50k wage bill on R&D activities before claiming any R&D relief.

- Claiming the relief will result in the breakeven position becoming a loss for tax purposes of £65k (£50k spend x 130% R&D 'enhancement').

Now, the company has a *choice* of:

- Either carrying this loss forward to set off against next year's tax bill (assuming the company will be profitable next year), worth £13k (i.e. £65k @ 20%).
- Or, alternatively the company can 'surrender' the loss now and receive a cash refund of £9,425 from HMRC (£65k @ 14.5%)

You will see that the cash surrender option is at a lower rate than the corporation tax rate, so would the company rather have £9,425 now or £13k in a year's time?

Many start-up businesses for which cash is crucial for survival will opt for the cash surrender route.



HOW DO I COMMENCE THE CLAIM PROCESS?

You can apply for confirmation from HMRC with regards to whether or not any of your company's activities qualify for R&D tax relief.

When HMRC are satisfied the relief will apply you will need to make the necessary entries and adjustments to your company tax computations and returns.

HENTONS - EXPERIENCED CHARTERED ACCOUNTANTS

Here at Hentons we have experience of dealing with the R&D team at HMRC and have successfully concluded hundreds of claims for our clients over the years; resulting in tax savings of hundreds of thousands of pounds.

Our application would take the form of a report and once HMRC are satisfied we can carry out all the necessary adjustments to your company tax computations and returns for you, allowing you to get on with the important day to day running of your business.

Please contact me if you would like any further information, or if not already a client of ours, to arrange your initial no obligation consultation.

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