



RESEARCH AND DEVELOPMENT (R&D) RELIEF

The Small and Medium sized Enterprise (SME) Scheme

From 1 April 2011 the tax relief on allowable R&D costs is 200% - that is, for each £100 of qualifying costs, your company or organisation could have the income on which Corporation Tax is paid reduced by an additional £100 on top of the £100 spent. It also includes a payable credit in some circumstances.

Subject to Parliamentary approval, the rate will increase further to 225% from 1 April 2012.

You can only claim under the Scheme for SMEs if your Company or organisation meets the definition of a SME for R&D Relief purposes.

In certain specific situations, even if your Company or organisation meets the definition of a SME, you may not be able to claim relief under the SME Scheme, but you may be able to claim under the Large Company Scheme. This means that, if your Company is small or medium sized you may be able to claim R&D Relief under the SME Scheme for one project and the Large Company Scheme for another.

If your Company is small or medium sized then you can only get paid tax credit if your Company is a going concern. This means its latest published Accounts were prepared on a going concern basis and nothing in the Accounts suggests that its status (as a going concern) depends on it receiving R&D Relief or tax credits. If your Company or organisation ceases to be a going concern after making a claim but before any credit is paid, HMRC treats the claim as if it has not been made and you cannot get tax credit.

WHICH R&D PROJECTS MIGHT QUALIFY FOR RELIEF?

Your Company or organisation can only claim for R&D Relief if an R&D project seeks to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty – and not simply an advance in its own state of knowledge or capability. See below for how to find out what this means and how to show a project meets these terms.

Furthermore, for accounting periods ending before 9 December 2009, the project must satisfy both of the following conditions:

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- it must be related to your Company or organisation's trade – either an existing one or one that you intend to start up based on the results of the R&D
- if your Company or organisation is claiming relief under the SME Scheme, it must own any intellectual property that might arise from the project

For accounting periods ending on or after 9 December 2009, only the first condition applies as the second condition has now been abolished and will not apply to relevant expenditure for accounting periods ending on or after that date.

HOW TO SHOW THE PROJECT IS R&D WITHIN THE TAX DEFINITION

There are guidelines that define all the following terms and it is important to understand these concepts before attempting to reach a view on whether your Company or organisation has an R&D project for tax purposes.

- Project
- Advance in science or technology
- Science
- Technology
- Directly contribute
- Scientific or technological uncertainty

TO SUBSTANTIATE YOUR CLAIM - CAN YOU ANSWER THE FOLLOWING QUESTIONS?

What is the scientific or technological advance?

Rather than stating the name of the product, process, functionality etc being developed you should consider what scientific or technological advance is being sought. This focuses attention on the project's aim for an advance which is the key issue in judging whether R&D for tax purposes is being undertaken.

Science does not include work in the arts, humanities and social sciences (including economics).

It is not enough that a product is commercially innovative. You cannot claim in respect of projects to develop innovative business products or services that do not incorporate any advance in science or technology.

What were the scientific or technological uncertainties involved in the project?

Scientific or technological uncertainty exists when knowledge of whether something is scientifically possible or technologically feasible or how to achieve it in practice is not readily available or deducible by a competent professional working in the field.

However uncertainties that can be resolved through relatively brief discussions with peers are routine uncertainties rather than technological uncertainties. Technical problems that have been overcome in previous projects on similar systems are not likely to be technological uncertainties.

You should set out at a high level, in a form understandable to the non expert, what these uncertainties were and when they started and ended.

How and when were the uncertainties actually overcome?

Describe the methods adopted to overcome the uncertainties and the investigations and analysis undertaken. This should not be in great detail, simply sufficient to show that the matter was not straight forward. Describe the successes and failures and the impact of these on the overall project. If the uncertainties were not overcome, explain what happened.

Why was the knowledge being sought not readily deducible by a competent professional?

It might be publicly known that others have attempted to resolve the uncertainties and failed, or perhaps that others have resolved the uncertainties but that precisely how it was done is not in the public domain. In either case a valid technological uncertainty can still exist.

Alternatively if the project is one where there is little public information available, you will need to show that the persons leading the R&D project are themselves competent professionals working in the relevant field. This might be done by outlining their relevant background, professional qualifications and recent experience. Then have them explain why they consider the uncertainties are scientific or technological uncertainties rather than routine uncertainties.

WHICH COSTS QUALIFY FOR R&D RELIEF?

To qualify as R&D any activity must meet the definitions set out by the Department of Trade and Industry (DTI). (This organisation is now known as the Department for Business, Innovation and Skills). These guidelines state that the activity must contribute directly to seeking the advance in science or technology or must be a qualifying indirect activity.

If your Company and the project both meet the necessary conditions then you can claim tax relief on revenue expenditure (generally this means costs incurred in the day to day running of the business – not capital expenditure on assets) in areas outlined below, if all necessary conditions are met.

If you have spent money on something such as staff costs where the employee was only partly engaged on R&D activities, you can only claim for an appropriate proportion of the cost.

R&D DEFINITIONS FOR RELIEF PURPOSES

Employee costs – that is, employing staff directly who are actively engaged in carrying out R&D itself. The staff must be employed under a contract of employment directly with your Company or organisation – not consultants, agency workers or staff/directors whose contracts of employment are with other companies. However, these others may qualify under either the rules for staff providers or subcontractors.

Staff providers – paying a staff provider for staff provided to the Company who are directly and actively engaged in carrying out R&D. The staff provider needs to contract with the individual whose services they supply – not through another person.

Materials – consumable or transformable materials used directly in carrying out R&D. These are actual physical materials that are consumed in the R&D and not things like telecommunications or data costs.

Payments to clinical trials volunteers – the cost of relevant payments to subjects of clinical trials.

Utilities – power, water, fuel used directly in carrying out R&D but not things like telecommunication costs and data costs.

Software – computer software used directly in the R&D.

Subcontracted R&D expenditure – if your Company or organisation is claiming relief under the SME Scheme, then you may be able to claim back 65% of what you spend on certain R&D activities carried out for you by a subcontractor. However, if the subcontractor is connected to your Company or organisation or you have jointly elected for connected parties treatment, special rules apply. If your Company or organisation is not a SME, you can only claim expenditure on activities that are undertaken directly on its behalf by certain specific kinds of subcontractor.

Capital expenditure – although R&D Relief is only available for “revenue expenditure” (generally day to day running costs, as opposed to capital expenditure) if you are involved in R&D and you spend money on capital assets, you may be able to claim R&D capital allowances.

- ACCOUNTING & AUDIT SERVICES
- CORPORATE STRATEGY SERVICES
- BUSINESS PLANNING
- LITIGATION SUPPORT
- TAXATION
- IT SUPPORT
- PAYROLL
- OUTSOURCED MANAGEMENT ACCOUNTING SERVICE
- ACCOUNTS RECORD KEEPING SERVICE