

Research and Development tax credits scheme



Introduction

R&D Tax Credits are a government incentive designed to encourage UK companies to invest in innovation. These credits provide tax relief on qualifying R&D activities, helping businesses reduce their Corporation Tax or claim a cash tax credit.

This area is subject to considerable change at the time of writing, with new rules coming into force following changes made in 2024.

Eligibility for R&D Tax Relief

To qualify for R&D Tax Relief, a company must be involved in activities that meet the following criteria:

- Innovative Work: The company must be carrying out work that seeks to resolve scientific or technological uncertainties. This could involve developing new products, processes, or services, or significantly improving existing ones.
- UK-Based: The company must be based in the UK and conduct the R&D activities within the UK.
- Business in Profit or Loss: R&D tax relief is available to companies whether they are making a profit or loss. If the company is loss-making, the relief can be claimed as a cash credit.

Qualifying R&D Activities

R&D activities must aim to achieve an advance in science or technology. Common examples include:

- Developing new products, processes, or software: For example, a company developing a new product or improving an existing product through technological innovation.
- Improving existing products: If existing products are being improved in terms of functionality, performance, or efficiency through technological changes, these activities may qualify.
- Resolving technological uncertainties: Companies that face challenges in their development process that cannot be easily solved by professionals in the field may qualify for R&D tax relief.

Types of Costs Eligible for R&D Tax Relief

The following types of costs can be claimed under the R&D Tax Relief scheme:

- Staff Costs: Wages, salaries, National Insurance contributions, and pensions for employees directly involved in R&D activities.
- Materials and Consumables: The cost of materials used in R&D, including raw materials, software, and hardware.
- Software: The cost of software used in R&D activities, including licensed software and proprietary systems.
- Subcontractors: The costs of R&D subcontracted to third-party providers, where the work meets the eligibility criteria.
- Externally Provided Workers (EPWs): The cost of externally provided workers who support R&D activities, including the work of freelance consultants or temporary staff.
- Utilities: A proportion of the costs of utilities (e.g., electricity, gas) used for R&D purposes in the laboratory or testing environment.



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Rates of R&D Tax Relief

R&D Relief for SMEs:

For companies that qualify as SMEs (small and medium-sized enterprises), the tax relief can be as high as 27% of eligible R&D expenditure.

An SME is defined as a company with fewer than 500 employees and either a turnover of less than €100 million or gross assets of less than €86 million (£73 million).

R&D Relief for Large Companies:

Large companies, which do not meet the criteria for SMEs, can claim the R&D Expenditure Credit (RDEC) at a rate of 20% of qualifying R&D expenditure.

This applies to businesses that exceed the SME thresholds but still engage in qualifying R&D activities.

Key Steps in the Claim Process

The R&D claim process complex and it is not recommended that clients submit claims themselves. In recent years HMRC have considerably tightened up the processing up of claims and any hint of non compliance will lead to claims being rejected.

Parry & Parry offer an end to end service that addresses all of the key steps in preparing and submitting a claim:

- Identify R&D Activities: Review your R&D activities to identify those that meet the eligibility criteria.
- Compile Evidence: Prepare evidence and documentation to demonstrate how your activities meet the technological or scientific advancement requirements.
- Claim Submission: Submit a claim through your Corporation Tax return, including a detailed breakdown of R&D expenditures and evidence supporting the claim.

When Will You Receive the Relief?

If the company is profit-making, the relief is provided in the form of a reduction in the Corporation Tax liability.

If the company is loss-making, the relief can be paid out as a cash credit, which can provide valuable funding for the business.

The claim process typically takes around 4 to 6 weeks once submitted to HMRC, though this may vary depending on the complexity of the claim and any additional information required.

Next steps

R&D Tax Relief is a valuable opportunity for businesses to reduce their tax burden and encourage innovation. Whether you are a small startup or a larger growing company, the scheme can support a wide range of research and development activities. If your business is engaged in qualifying R&D activities, it's important to identify the costs involved and claim the relief you are entitled to.

Contact Parry and Parry for expert advice on how to navigate the R&D Tax Relief process and maximise your claim.