

# Research & Development Tax Relief

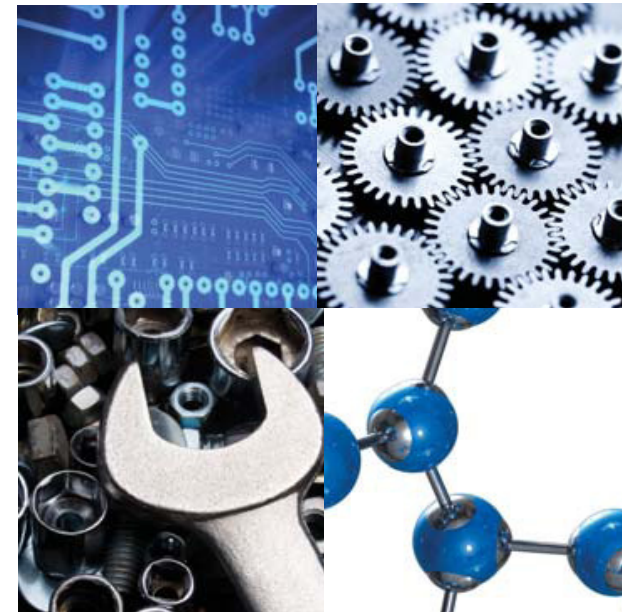
15 September 2010



**David Clift**  
**Tax Director**  
t: 01452 634800  
e: david.clift@hazlewoods.co.uk



**Sara Crowther**  
**Tax Manager**  
e: slc@hazlewoods.co.uk



# Introduction

- About Hazlewoods
- About R&D tax relief – brief background
- Today's presentation:
  - The technical aspects
  - Some practical considerations



Sara Crowther

The technical aspects

# What is R&D tax relief?

- **Government “subsidy” for companies which:**
  - incur expenditure on qualifying R&D, or
  - carry out qualifying R&D, or
  - both
- **Administered through the corporation tax self assessment.**

# What is R&D tax relief?

## Enhanced tax relief of

- **175% of qualifying expenditure under SME scheme**
  - Equates to tax saving of 15p-16p for every £1 qualifying
  - R&D tax losses can be 'cash in' for a repayment of PAYE & NIC up to 24½p for every £1 qualifying R&D.
- **130% of qualifying expenditure under large companies scheme**
  - Equates to 8½p for every £1 qualifying R&D
  - No option to 'cash in' losses

# SME Scheme

- The SME scheme is aimed at SME companies which FUND their own qualifying R&D
- Expenditure must not be subsidised
- A SME is a company that has fewer than 500 employees AND meets one or both of the following conditions:
  - Annual turnover of Euro 100m or less; OR
  - Total assets less than Euro 86m

# Large companies scheme

- The large companies scheme is aimed at (ALL) companies which CARRY OUT qualifying R&D
- Companies receiving government grants for a project can claim under the large scheme (for entire project)
- Companies that receive funding from large companies can claim under the large scheme for the funded parts of the project (unfunded aspects under SME scheme)

# Is it R&D?

In order to qualify for R&D tax relief a project must

- Represent an ***advance*** in science or technology
  - Extend overall knowledge
  - Appreciable improvement
- Involving the resolution of ***scientific or technological uncertainty***



(NB: significance of patents)

# Qualifying costs

- Expenditure has to be revenue in nature and be at least £10,000 per year
- Staffing costs and external workers
- Software
- Consumable items
- Certain payments to sub-contractors (usually only under SME scheme)





David Clift

Some practical considerations

# What is R&D in practice?

- A project
- “Appreciable improvement”
- “Technological uncertainty”
- “Competent professional” benchmark

# What is R&D in practice?

- In essence, 2 questions:
  - How is your product/process/material/device/service better than others?
  - Did you have to work through some fairly complex technical issues?

# Common misconceptions

## ***“We can’t claim because...***

### **➤ ...Our business is not high technology”**

- ✓ New design of self propelled golf trolleys - £32k cash repayment
- ✓ Animal shearing equipment

### **➤ ...We don’t pay Corporation Tax”**

- ✓ Loss making dental instrument designer - £89k cash repayment

### **➤ ...We don’t make a product”**

- ✓ Dental burr manufacturer – new production/manufacturing processes
- ✓ Rail industry: lean line manufacturing – tax savings £97k

# Common misconceptions

## ***“We can’t claim because...***

- ...Our R&D was unsuccessful”
- ...The R&D that we do is all paid for / funded”
  - ✓ Consulting Engineers - £50k+ cash repayment
- ...We capitalise the costs of our R&D in our accounts”
  - ✓ Manufacturer of reactors for wind turbines: R&D claim turned taxable profits of £195k into tax losses + enhanced relief giving tax credits of £82k

# What to do?

- Consider the “2 questions”
- Talk it through
- Involve HMRC? (no advance clearance)
- Estimate ‘ball park’ claim
- Prepare claim
  - Full report?
  - A few pages?
- File claim
  - tax repayment can be within 28 days

# What does the future hold?

- **Comprehensive Spending Review** – October
- **Dyson report:**
  - “The **current system is well intentioned but not well targeted**. A Conservative government should refocus R&D tax credits on high tech companies, small businesses and new start-ups in order to stimulate a new wave of technology. **When the public finances allow, the rate should be increased to 200%**”
  - “*As our economy seeks to re-balance over the months ahead, **the government must recognise the value of the R&D tax credit and commit to retaining it** and encouraging more firms to invest in research and development. It should also go further by building on its success; extending the rate and range of credit, enabling more companies to apply and covering more of their associated overheads.*” *Richard Lamber, Director-General CBI*

Act now!

# Contact

## **David Clift** **Tax Director**

**t:** 01452 634800

**e:** david.clift@hazlewoods.co.uk

Hazlewoods LLP  
Windsor House  
Barnett Way  
Barnwood  
Gloucester  
GL4 3RT

[www.hazlewoods.co.uk](http://www.hazlewoods.co.uk)

