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R & D Tax Relief For SMEs

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Introduction

Research and Development (R & D) reliefs support companies that work on innovative projects in science and technology. It can be claimed by a range of companies that seek to research or develop an advance in their field. It can even be claimed on unsuccessful projects.

The project must relate to your companies trade, either an existing one, or one that you intend to start up based on the results of the R & D.

To get R & D relief you need to explain how a project:

- Looked for an advance in science and technology
- Had to overcome uncertainty
- Tried to overcome uncertainty
- Could not be easily worked out by a professional in the field

Your project may research or develop a new process, product or service or improve on an existing one.



Advances

Your project must aim to create an advance in the overall field, not just for your business. This means an advance cannot just be an existing technology that has been used for the first time in your sector.

Types of R & D Relief

There are different types of R & D relief depending on the size of your company and whether the project had been subcontracted to you or not.

SME R & D Relief

- You must be less than 500 staff
- Have a turnover of under 100 million euros or a balance sheet total under 86 million euros

SME R & D Relief allows these companies to:

- Deduct an extra 130% of their qualifying costs from their years profit, as well as the normal 100% deduction, to make a total 230% deduction
- Claim a tax credit if the company is loss making, with up to 14.5% of the surrenderable loss.

Research and Development Expenditure Credit (RDEC)

This is available to large companies.

RDEC is a tax credit for 12% of your qualifying R & D expenditure from 1st January 2018.

Costs you can claim

You can claim certain costs on the project from the date you start working on it until you develop or discover the advance, or the project is stopped.

Employee costs

For staff working directly on the R & D project, you can claim a proportion of their:

- Salaries
- Wages
- Class 1 National Insurance contributions
- Pension fund contributions

You can claim for administrative or support staff who work to directly support a project. For example, human resources used to recruit a specific person to work on the project. You cannot claim for clerical or maintenance work that would have been done anyway, like managing payroll.

You can claim 65% of the relevant payments made to an external agency if they provide staff for the project.



Subcontractor costs

You can claim 65% of the relevant costs of using a subcontractor for your R & D activities.

Software

You can claim for software licence fees bought for R & D and a reasonable share of the costs for software partly used in your R & D activities.

Consumable Items

You can claim for the relevant proportion of consumable items used up in the R & D. This includes:

- Materials
- Utilities

Clinical Trials Volunteers

R & D projects in the pharmaceutical industry, you can claim payments made to volunteers involved in clinical tests.

Costs that cannot be claimed

You cannot claim for:

- The production and distribution of goods and services
- Capital expenditure
- The cost of land
- The cost of patents and trademarks
- Rent or rates

Work out when the R & D activity starts and ends

The R & D activity starts when you begin working to resolve the uncertainty. You'll need to identify the technical issues that need to be resolved, and make sure there is not an existing solution that has already been worked out.

The R & D activity ends when you solve the uncertainty or stop working on it. The activity you claim R & D relief for should end once you have a working prototype that solves the problem, and before you go into production.

Your R & D may restart if you find another scientific or technological uncertainty after you've started producing the product. If this happens, you can claim for further R & D while you try to resolve it.

How to claim R & D relief

You can make a claim for R & D relief up to 2 years after the end of the accounting period it relates to.

You can claim the relief by entering your enhanced expenditure into the full Company Tax Return form (CT600).

You can use the online service to support your claim.

To calculate your enhanced expenditure you need to:

1. Work out the costs that were directly attributable to R & D
2. Reduce any subcontractor or external staff provider payments to 65% of the original cost.
3. Add all costs together.
4. Multiply the figure by 130% to get the additional deduction to put in to your tax computations.
5. Add this to the original R & D expenditure figure to get the enhanced expenditure figure which you can enter into your tax return.

If you make a trading loss, you can choose to surrender this and claim a tax credit. You can find out how to convert tax relief into payable tax credits in the Corporate Intangibles R & D Manual.

How to Support your claim

You may use the online service to send HMRC details to support your R & D tax relief claim.

To use the online service, you need a Government Gateway user ID and password. If you do not have a user ID, you can create one when you first use the service.

You'll need to have already submitted your full Company Tax Return form (CT600) before using this service to send details to support your claim.

Your claim covers a period of 12 months or more, submit a separate claim for each accounting period.

Details you'll need to support your claim

It will help your claim if you give us a short summary that explains how your project:

- Looked for an advance in science or technology and aimed to achieve this advance
- Had to overcome scientific or technological uncertainty
- Overcame this uncertainty
- Could not easily be worked out by a professional in the field

You'll also need:

- The start and end dates of the accounting period relating to the R & D activity – these should be the same dates as the period covered by your CT600 return
- Your 10 digit company unique tax reference (UTR) number
- The total amount of tax relief you're claiming
- A breakdown of your qualifying R & D costs
- Your unrelieved trading loss for the claim period

Find out more by reading the full government guidance:

<https://www.gov.uk/guidance/corporation-tax-research-and-development-rd-relief>

- R & D Tax Credits
- Research & Development tax
- R & D Claims
- R & D Tax Relief
- Research & Development

Goddards Accountants have been submitting R & D claims for clients since the option became available. If you think you might be eligible, just phone us on 0208 941 2187. We charge 10% of the tax we save (No savings, No fee)

For further information about Goddards Accountants, please call us at our offices:

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