

## Tech Sector Tool Kit: Taxing R & D



There are four key tax reliefs available for expenditure on R & D. This Tool Kit only looks at the relief for revenue expenditure available to SMEs.

### Preliminary Matters

- This relief is only available to companies (and not partnerships or sole traders).
- Relief is only claimable for expenditure incurred in the last 2 accounting periods.
- An SME is a company with less than 500 employees and either an annual turnover of not more than €100 million or a balance sheet of not more than €86 million.
- There are two criteria required for qualifying R & D:
  - projects which seek to achieve an advance in science or technology; and
  - the solution or method of arriving at a solution, is not readily apparent to an appropriately skilled professional

### Qualifying Expenditure

- To qualify expenditure must be revenue expenditure attributable to R&D, which relates to the SME's trade and is done by the SME or on its behalf and relates to:
  - the cost of qualifying staff involved;
  - consumable or transformable materials used;
  - certain subcontractor costs; or
  - payments to clinical trials volunteers.

(Previously, to qualify for relief, the company had to incur at least £10,000 for each accounting period on qualifying expenditure. However, this requirement was abolished for accounting periods ending on or after 1 April 2012).
- Qualifying staff are those directly/actively involved in the R&D (e.g. researchers and managers) who plan, organise and carry out or support the R&D activity. The costs of staff must be apportioned if they are not involved on a full-time basis.
- The allowable staff costs include payments such as salaries, bonuses, employers' national insurance contributions and pension contributions. They do not include benefits in kind or recruitment costs.
- The allowable consumables includes expenditure on materials/equipment used in R & D activity but not incorporated in the product of it so for example, power, water and software. They do not include indirect supplies such as overheads, insurance, rent, rates, lease or hire charges, capital items or depreciation.
- Some subcontractor costs are allowable as R&D would not otherwise be available. The subcontractor does not have to be an SME or located in the UK for the relief to be available to your company. The work done by your subcontractor need not, on its own, qualify for R&D relief, if it is part of your larger project, that will qualify.

## Applying the Relief

- The relief is taken as an additional deduction for tax purposes, reducing a profit or increasing a loss. If the SME is loss-making, the additional loss arising from the relief can be surrendered in exchange for an immediate repayment from HMRC.
- The relief is given by allowing a business to deduct an additional percentage of its qualifying expenditure when calculating profits or losses for tax purposes. For a tax-paying SME, this will reduce its tax liability. For a loss-making SME (if not surrendered for a repayment) it will increase the loss available to:
  - carry forwards or backwards.
  - use against other income of the period.
  - surrender as group relief.

## The Rate of Relief for SMEs

- 225% of the qualifying revenue expenditure in the relevant accounting period for expenditure incurred after 1 April 2012;
- 200% of the qualifying revenue expenditure in the relevant accounting period for expenditure incurred after 1 April 2011 and before 1 April 2012;
- 175% of the qualifying revenue expenditure in the relevant accounting period for expenditure incurred on or after 1 August 2008 and before 1 April 2011;
- 150% of the qualifying revenue expenditure in the relevant accounting period for expenditure incurred on or after 1 April 2000 and before 1 August 2008.
- Cap on expenditure qualifying for relief
- There is a cap on the total R&D relief that may be claimed by an SME on a particular project. An SME may only claim R&D relief to the extent the total combined R&D relief (and vaccine research relief is applicable) claimed for expenditure on a particular project does not exceed €7.5 million. This is not an annual limit, but a lifetime limit for each project.

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