

## RESEARCH AND DEVELOPMENT TAX RELIEF FOR SMEs

### What is R&D

Research and Developments (R&D) relief supports companies that work on innovative projects in science and technology. A company that seeks to research or develop an advance in their field, even if a project is ultimately unsuccessful, can make a claim. Work qualifying for R&D relief must be part of a specific project to make an advance in science and technology.

SME R&D relief allows companies to claim the following tax relief on their Corporation Tax return:

- An extra 130% of their qualifying costs as a taxable deduction from their yearly profit, as well as the normal 100% deduction, to make a total 230% deduction, OR
- A payable tax credit if the company is loss making, worth up to 14.5% of the surrenderable loss.

### What type of projects qualify for R&D

- The project must relate to the company's trade – either an existing one, or one that you intend to start up based on the results of the R&D.
- Projects may produce both tangible (physical improvements) or intangible (knowledge/processes) results.
- A project may research or develop a new process, product or service.
- It may improve on an existing process, product or service through development of technological or scientific advances. The end result does not have to change as long as the process to achieve it is appreciably enhanced.

### Making a claim

To be able to make a claim for R&D relief, you need to produce a technical document to be sent to HM Revenue & Customs with your corporation tax return explaining how a project:

#### **Looked for an advance in science and technology**

The 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.

The process, product or service can still be an advance if it has been developed by another company but is not publicly known or available.

#### **Show that a professional in the field could not work this out**

You should explain why a professional could not easily work out your advance. You can do this by showing that other attempts to find a solution had failed. You can also show that people working on the project are professional in that field and get them to explain the uncertainties involved.

#### **Show there was uncertainty**

A scientific or technological uncertainty exists when an expert on the subject cannot say if something is technologically possible or how it can be done – even after referring to all available evidence. This means that your company or experts in the field cannot already know about the advance or the way you achieved it before the project is started. It does not exist when the solution to the problem is trivial or routine. The R&D project will end when the uncertainty has been overcome.

## **Explain how you tried to overcome the uncertainty**

You should show that the R&D project needed research, testing and analysis to develop it. You need to be able to explain the work you did to overcome the uncertainty. This may include a description of the successes and failures you had during the project.

In a recent tax tribunal case, a company lost its appeal against HMRC's disqualification of its claim as the technical report prepared by their accountant only described the project and its aims. It did not provide sufficient anecdotal evidence gathered from the persons involved in the project to show how each of these four requirements to make the claim were achieved.

## **What can be claimed**

Certain costs can be claimed on a project from the date work commenced on it until you develop or discover the advance, or the project is stopped. You will need to be able to link these costs back to narrative provided in your technical report.

### **Employee Costs**

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

- Wages
- Employer's NICs
- Company pension scheme contributions

### **Subcontractor Costs**

You are able to claim 65% of the relevant costs of using a subcontractor or agency worker for your R&D activities.

### **Software**

You are able to 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 are able to claim for the relevant proportion of consumable items used up in the R&D. This includes materials and utilities.

There are commercial costs that may indirectly relate to an R&D project that cannot be claimed. These are:

- the production and distribution of goods and services
- capital expenditure
- the cost of land
- the cost of patents and trademarks
- rent or rates