

# Research & Development Tax Relief

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# What are the Reliefs? - Overview

- SME / Large
  - < 500 employees; AND
  - < €100m turnover; OR
  - < €86m total assets
- SME Relief:
  - Uplift of 230% of qualifying costs
  - Can surrender for 14.5% tax credit if losses
  - Restriction since 1 April 2021 on tax credit
    - APs commencing after this date only
    - £20,000 + 3 times total PAYE / NIC payments

# What are the Reliefs? – Overview (cont.)

- Large Relief:
  - Known as an RDEC claim
  - Also applies to SME's if:
    - Work subsidised / grants
  - Detailed calculation:
    - R&D qualifying costs @ 13% from 1/4/2020 (12% from 1/1/2018)
    - /less qualifying costs @ 19%
    - restriction total expenditure on workers

# What costs qualify?

- Direct & Indirect R&D staff costs
  - salary costs
- Subcontracted R&D
  - 65% of the costs only
  - not for RDEC though
- Consumable costs
  - excludes materials incorporated into products sold
  - includes water, fuel and power consumed
- Software (Cloud costs now allowed)

# What costs don't qualify?

- Capital costs
  - If capital allowances then get 100% FYA
  - Buildings qualify for FYA (excluding land)
- Payments for the use and creation of patents / trademarks
  - Patent Box may apply though
- Grants / Subsidies
  - State Aid support
  - Other Grant support (SME / RDEC)
  - Subsidised (RDEC)

# What projects qualify?

- Cover a diverse range of activities
  - Not just 'blue sky thinking'
  - Seeking to achieve “an appreciable improvement to an existing process, material, device, product or service.”
- Seek to address the following questions;
  - What is the scientific or technological advance being achieved or sought?
  - What were the scientific or technological uncertainties involved in the project?
  - How and when were the uncertainties actually overcome?
  - Why is the knowledge being sought not readily deducible by a competent professional

## Example 1 (SME)

- Facts:
  - Taxable profit before enhanced R&D reliefs of £100,000
  - Qualifying R&D costs incurred;
    - Salary costs £30,000
    - Subcontract costs £10,000 (65% = £6,500)
    - Consumable / utility costs £4,000

	£	£
Taxable profit	100,000	19,000
R&D costs	40,500	
R&D enhanced relief	<u>(93,150)</u>	
<b>Adjusted taxable profit</b>	<b><u>47,350</u></b>	<b>8,997</b>

## Example 2 (SME)

- Facts:
  - Taxable loss before enhanced R&D reliefs of £100,000
  - Qualifying R&D costs incurred as Example 1;

	£	£
Taxable loss	(100,000)	
R&D costs	40,500	
R&D enhanced relief	<u>(93,150)</u>	
<b>Adjusted taxable profit</b>	<b><u>(152,650)</u></b>	
<b>Loss surrendered (14.5%)</b>	<b><u>93,150</u></b>	<b><u>13,507</u></b>



## Example 3 (RDEC)

- Facts:
  - Taxable profit before enhanced R&D reliefs of £100,000
  - Qualifying R&D costs incurred as Example 1;

	£	£
Taxable profit	100,000	19,000
RDEC (£34k @ 13%)	<u>4,420</u>	
Adjusted taxable profit	<u>104,420</u>	19,840
RDEC		<u>(4,420)</u>
<b>Net tax payable</b>		<b><u>15,420</u></b>

# Administration Points

- First time claimant – Advance Assurance scheme
- New CT600J to complete for all claims filed since 1 April 2021
- Need to include a report to support any claim
  - Projects being undertaken each project (> 3 more than 50% of costs in detail)
  - Addressing the main points noted
  - Detailing the costs incurred
- Have 2 years to make a claim
- Ongoing consultation on the scheme, so could change / become more targeted

# Any Questions

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