



IN PLAIN WORDS

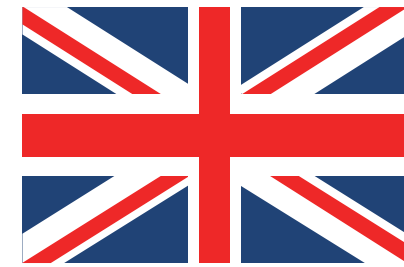
R&D TAX CREDITS

For small and medium sized enterprises (SME)

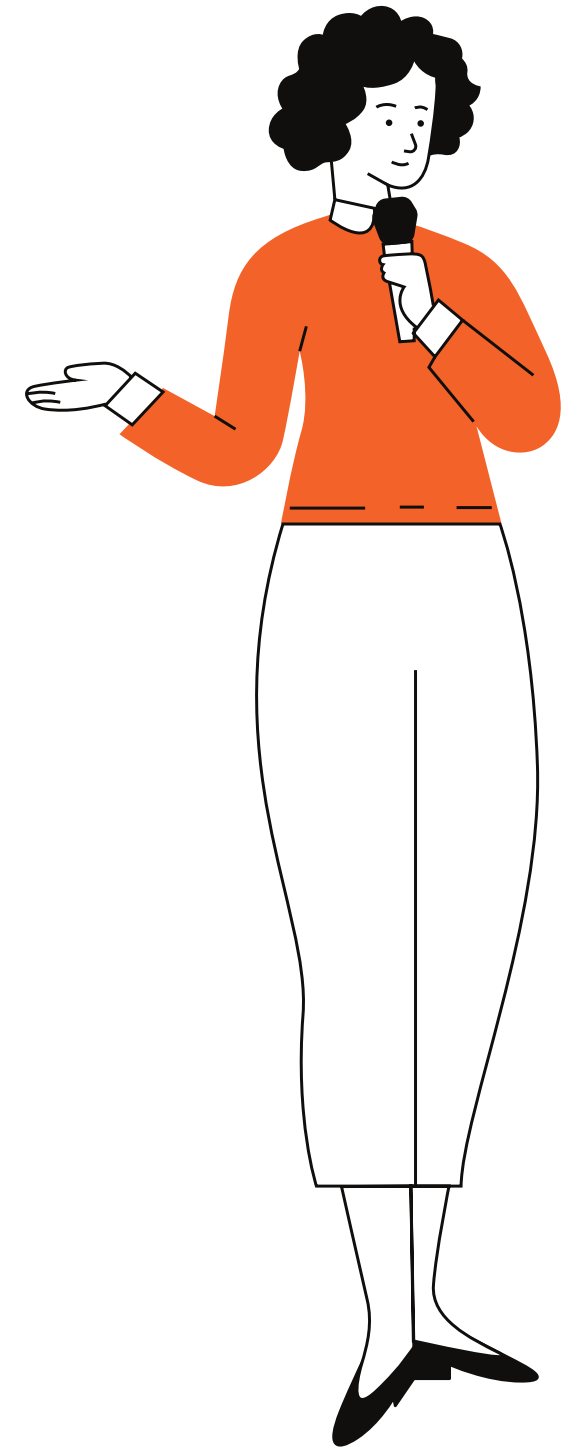
ASK
the
BOSS

R&D Stands for Research and Development

When a company develops a new product, process or service, or improves those that already exist. During this process the end result is not a guaranteed success and they face both risk and uncertainty.



In the UK
R&D Tax Credits
are a tax incentive
designed to encourage
companies to invest in
R&D. Companies can
reduce their tax bill or
claim payable cash
credits as a proportion
of their R&D
expenditure.



UK R&D Tax Credits support companies that work on innovative projects in science and technology and can be claimed even on unsuccessful projects.

You may be able to claim Corporation Tax relief if your project meets HMRC's definition of R&D.

In some cases, you can even include work undertaken for a client!



This initiative is open to businesses in almost every sector as long as they can prove they have made an advancement, e.g.

Professional Services

Web Design

Charities

Manufacture

Retailers

Environmental

Construction



SME R&D RELIEF

There are different types of R&D relief, depending on the size of your company and if the project has been subcontracted to you or not.
Let's take a look at R&D Tax Relief for SMEs.

Small and medium-sized enterprises (SME) R&D Relief:



for companies with less
than 500 staff



Turnover <100M euros or
balance sheet total
<86M euros



SME R&D RELIEF

SME R&D relief allows companies to:

- deduct an extra **130%** of their qualifying costs from their yearly profit, as well as the normal **100%** deduction, to make a total **230%** deduction
- claim a tax credit if the company is loss-making, worth **up to 14.5%** of the surrenderable loss

These numbers are changing from 1 April 2023

- R&D relief allows companies to deduct an extra **86%** of their qualifying costs from their as well as the normal 100% deduction, to make a total 186% deduction
- claim a tax credit if the company is loss-making, worth **up to 10%** of the surrenderable loss, unless it's a loss making R&D intensive company



SME R&D TAX RELIEF CALCULATION - EXAMPLES

1

If the company was **profitable** in a given year and spent £100K on qualifying R&D activities:

$£100,000 \times 130\%$ (enhanced rate) = £130,000

$£130,000 \times 19\%$ (corporation tax rate) = £24,700

Your Corporate Tax bill is reduced by: £24,700

2

If the company was **loss-making** in a given year and spent £100K on qualifying R&D activities:

$£100,000 \times 130\%$ (enhanced rate) = £130,000

$£130,000 + £100,000 = £230,000$ (enhanced expenditure)

$£230,000 \times 14.5\%$ (surrender rate) = £33,350

Cash claimed from HMRC: £33,350



WOULD YOUR PROJECT COUNT?

The work that qualifies for R&D relief must be part of a specific project to make an advance in science or technology.

The project must relate to your company's trade – either an existing one or one that you intend to start based on the results of the R&D.

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

1

looked for an advance in science and technology

2

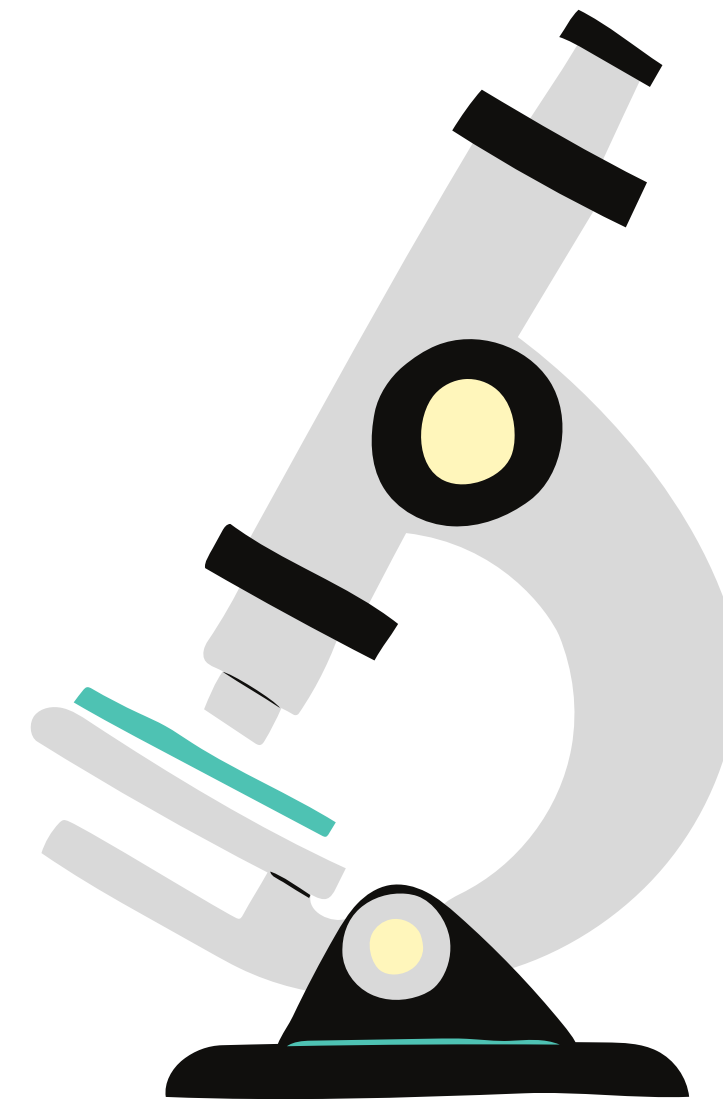
had to overcome uncertainty

3

tried to overcome this uncertainty

4

could not be easily worked out by a professional in the field

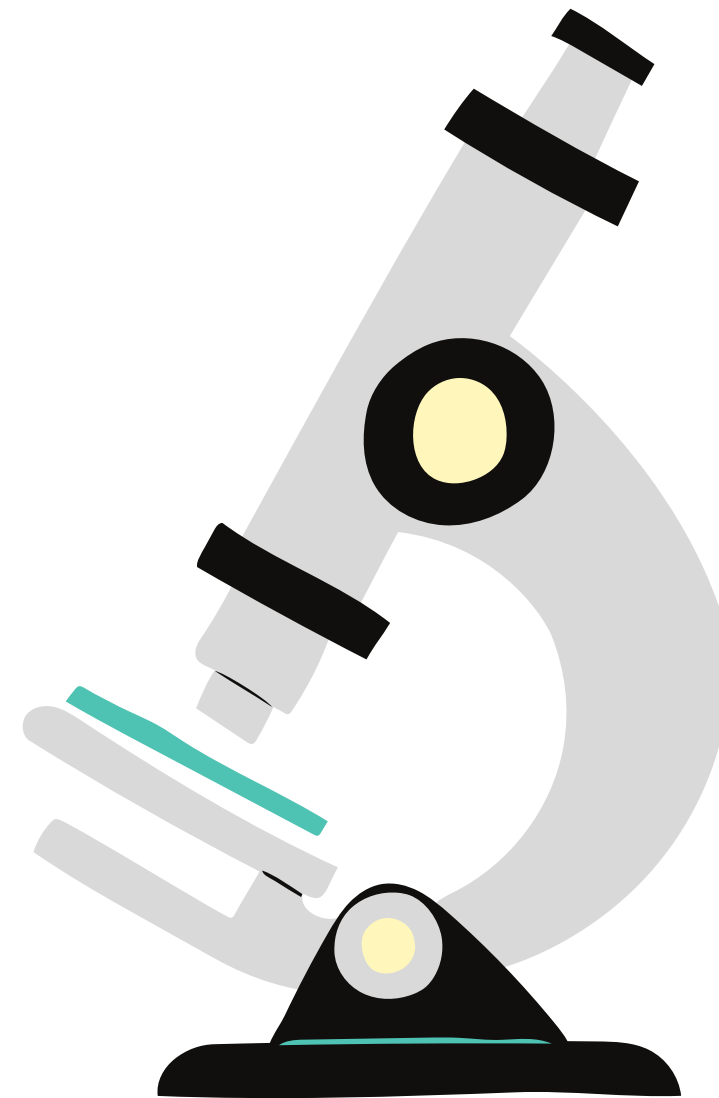


WHAT COSTS **CAN** BE INCLUDED?

The following costs can be included in a claim when they are incurred on directly resolving technological uncertainty on a qualifying project:

- Salaries of full-time or part-time staff members (incl. National Insurance and Pension contributions but not 100%)
- Subcontractor costs
- Contract Workers
- Consumables (e.g: water, gas, electricity, cost of prototypes not for sale)
- Software License costs
- Hosting Costs

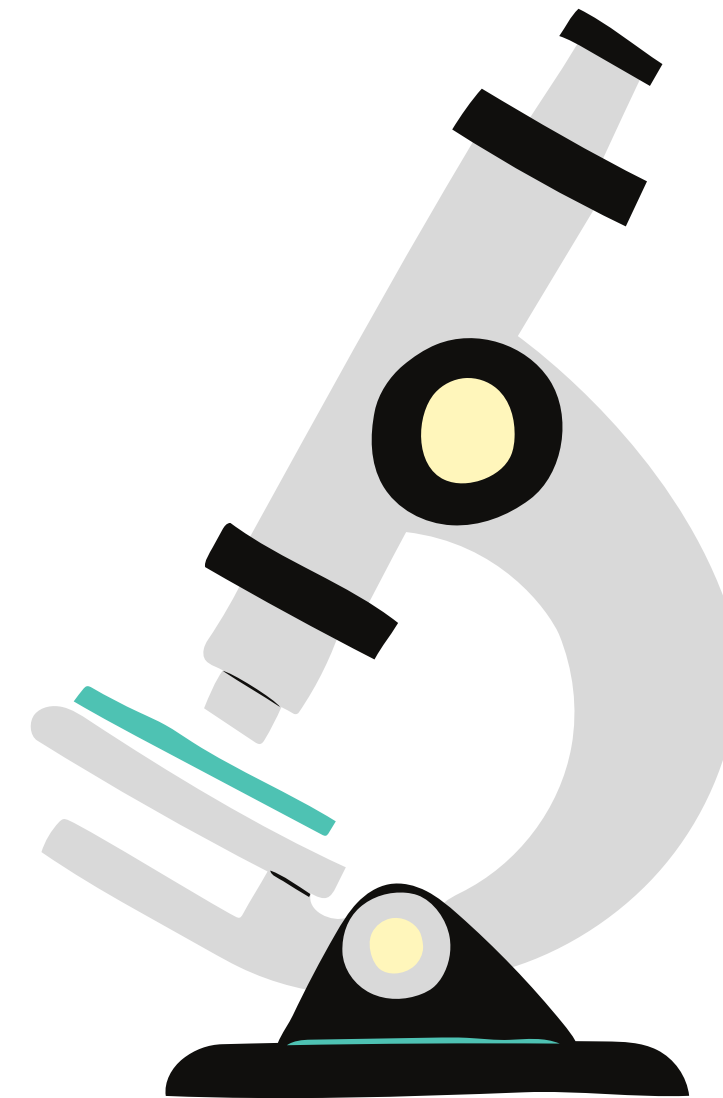
*** from 2024 non-UK based Contract Workers and Subcontractor costs will not be allowable



WHAT COSTS **CANNOT** BE INCLUDED?

Anything not on the list above, e.g.

- Normal operational costs (e.g. web hosting, office space rental, food and travel expenses etc.)
- Pay-outs of dividends to shareholders
- Recruitment costs, referral costs, even of R&D staff
- Costs of staff who are not directly and actively engaged in the R&D
- Costs of R&D staff where their time is not directly contributing to the resolution of technological uncertainty
- Costs of items that are used in production



HOW FAR BACK CAN YOU CLAIM?

If your company has been undertaking qualifying R&D and has not yet claimed R&D relief, you may make a claim for a tax return period that has already been filed with HMRC.

You have two years from the end of your accounting period to submit a claim.



Thank you!

If you have any questions regarding R&D Tax Credits,
feel free to get in touch with us:

Ask The Boss
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