

Research and Development tax relief

This factsheet outlines some of the key considerations when preparing an R&D tax relief claim

What are the R&D Tax Incentives

R&D tax incentives are a means of helping companies in a commercial context, by giving a financial reward for technical development that seeks to deliver substantially improved products, processes, devices, materials and/or services.

Potential claimants are very diverse. We have prepared claims not just for high technology companies in software, aerospace, defence, automotive etc. but for more 'traditional' manufacturing and engineering companies.

Defining R&D

R&D for tax purposes takes place when a project seeks to achieve an appreciable improvement to an existing process, material, device, product or service through scientific technological changes.

There should be an advance in overall knowledge or capability in a field of science or technology (not just the company's own state of knowledge or capability alone).

This includes the adaptation of knowledge or capability from another field of science or technology in order to make such an advance where the adaptation was not readily deducible.

Capital expenditure on assets for R&D activities

Relief of up to 100% may be claimed for expenditure on capital assets which are used for qualifying R&D activities. This applies even to assets such as buildings which would not normally qualify for any relief until the building is sold. For expenditure on other assets, R&D will often offer a way to accelerate tax relief.

Points to consider

Claim notification

If the Company is planning to claim R&D tax relief for accounting periods starting on or after 1 April 2023, it must submit a claim notification to HMRC if:

- It is claiming for the first time
- The last claim was made more than three years before the end date of the claim notification period and the Company does not meet one of the exemptions.

Competent professional

HMRC are placing increasing scrutiny on whether a Company has a Competent Professional who is suitably knowledgeable in the field and is able to verify that the activities undertaken meet the qualifying conditions in accordance with the DSIT guidelines.

Qualifying indirect activities

Claims can include staffing costs of individuals involved in ancillary/support to the resolution of any technological/scientific uncertainty.

Internal process improvements

Process improvements may qualify for enhanced R&D tax relief in addition to product development work.

Project write ups

When claiming R&D tax relief, the Company will need to provide project details as follows:

If the Company is claiming on 1 to 3 projects, details of all qualifying projects undertaken.

If the Company is claiming for 4 projects or more, details need to be provided for the lower of the following:

- The number of qualifying projects that account for a minimum of 50% of the qualifying expenditure made under each claim but with a minimum of 3 projects
- 10 largest qualifying projects.

Capitalised R&D

Capitalised costs incurred on qualifying R&D projects may still be able to be deducted in full, from taxable profits if the underlying costs are 'revenue' rather than capital in nature for tax purposes. Accordingly, such costs may also qualify for R&D tax relief, even though they have not been deducted in calculating the accounting profit and loss account for the period.

Prototypes

The time spent developing a first of class prototype can qualify for enhanced R&D relief to the extent that it resolves technological uncertainties.

PAYE cap

There is a measure which limits the amount of payable R&D tax credit which a company can claim to £20,000 plus 300% of its total Pay as you Earn (PAYE) and National Insurance Contributions (NIC) liability for the period. If the Company uses connected parties in its development activities, the PAYE/NIC costs for these companies may need to be aggregated.

Intellectual property

The company is not required to own the intellectual property arising from its R&D in order to qualify for R&D tax credits.

Failed or aborted R&D

If a company undertakes unsuccessful or abortive R&D activities, a claim for enhanced tax relief can still be made.

