

R&D tax relief and credits

Despite R&D tax relief being introduced in 2000, there still remains a misconception regarding what actually constitutes 'research and development' for the purposes of HMRC legislation. R&D tax relief and tax credits are still among the most under-claimed tax incentives currently available.

R&D tax relief – the UK's most generous corporation tax relief.

A series of legislative updates and revisions since the relief was first introduced has transformed this area of taxation from a cumbersome and complicated process into one of the most enabling and generous tax reliefs operating in any OECD country. Yet, despite these changes, R&D tax incentives are still being missed, resulting in thousands of eligible companies losing out on significant tax benefits.

The main reason behind the widespread failure of companies taking advantage of the reliefs is the misconception regarding what actually constitutes 'research and development' for the purposes of the HMRC legislation. Most company finance directors mistakenly believe that unless a scientist operating in a secret laboratory and dressed in a white lab coat is employed by the company, then R&D is not taking place. Indeed, a cursory glance at the current R&D legislation would undoubtedly suggest that this is a reasonable assumption to make.

R&D activity does not have to be 'blue sky' innovation, nor does it have to consist of creating new technologies. Instead, appreciable improvements to existing technology which would be regarded to be 'difficult' by those considered experts in the field (company employees for example) are perfectly acceptable where the R&D legislation is concerned.

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Call us to receive a free health check and one of our experienced advisers will ascertain whether the company will qualify for R&D tax relief.

If you are unsure at this stage, a telephone conversation with one of our advisers will be able to definitively establish whether or not a claim can be made, call us on 0114 236 4457.

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R&D tax relief.

Protect your client base and keep your competitors at bay



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How R&D tax relief works

The potential scope for successful R&D claims across your client base may well be greater than you think. Below is a list of sectors in which we already make successful claims. Our advice would be to go through this list and identify your clients that fall into any of these industries:

- Aerospace and defence
- Alarms and CCTV
- Automotive industry
- Banking and finance
- Chemicals, paints and adhesives
- Clothing, textiles and fabrics
- Construction and building materials
- Electronic and electrical
- Engineering and machinery
- Food and drink producers and processors
- Foundries
- Games software industry
- Health
- Household goods and textiles
- IT hardware
- Insurance brokers (software development)
- Land remediation
- Lighting
- Marine
- Manufacturing
- Media and entertainment
- Personal care, cosmetics and household
- Pharmaceuticals and biotechnology
- Printing and packaging
- Property and construction
- Software development
- Telecommunications
- Travel industry
- Transport
- Waste recycling
- Water treatment

Our specialist in-house R&D division can assist you with your R&D tax relief claims. Retrospective claims can be made for the past two accounting periods which can often result in a significant repayment of corporation tax, or if a company is loss making, a claim for R&D tax credits. It is therefore important to discover if a claim can be made as soon as possible so as not to miss out on any time limits.

So how does the R&D tax relief work?

HMRC will allow an extra 130% of identified costs (more of which later) to be written off against taxable profits. Therefore if R&D expenditure of £100,000 is identified, HMRC will allow £230,000 to be included in the tax computation, giving an extra £130,000 of costs to be offset against taxable profits. Large companies can receive a payable credit equating to 8.8% of its R&D expenditure, rising to over 9% by 2020.

The current corporation tax rate is circa 20% which equates to a £26,000 reduction in a tax liability. Loss making companies are not excluded from the benefits, and tax credits can be claimed on the losses enhanced by the R&D expenditure instead of carrying the losses forward to offset against future profits. Loss making companies are able to surrender the losses attributable to the R&D claim for a 14.5% R&D tax credit.

So what expenditure does it relate to?

Identifying the costs associated with the R&D activity is often seen as a laborious and minimally beneficial process when the cost of gathering the information is compared to the tax benefit. In reality, HMRC encourage a pragmatic approach to gathering cost information.

The expenditures allowed as part of the claim fall into five key categories: staff costs, consumables, subcontract labour, externally provided workers and heat and power cost.

How far can a company go back?

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Our programme of support

Our team of chartered tax advisers, chartered accountants and PhD scientists work in partnership with you to ensure the best advice is given relating to this niche area of opportunity. From a brief initial telephone conversation, we can quickly identify whether or not a company is eligible to claim this valuable relief.

Our pragmatic and practical approach enables us to maximise a claim and submit the necessary paperwork in an HMRC friendly format. The process is perceived as challenging. However, our tailored approach combined with our expertise in assisting many different types of businesses, in all industries, ensures seamless liaison with the tax authorities.

Our unrivalled and market leading track record (over 99.5%) is a direct result of our robust reporting model, developed over the last 15 years and which is continually refined as a result of our close working relationship with inspectors of taxes.

This model underpins our ability to provide exactly what HMRC requires, query free. HMRC aim to process R&D claims within four weeks of submission.

