Fiscal Incentives R&D  
Research and Development  
Tax Services

Introduction

If you carry out research and development and are interested in reducing your tax liability or possibly claiming cash back from HMRC, you will be interested in what the Fiscal Incentives team has to offer.

Who we are

Our Fiscal Incentives team within Davis Langdon are all highly qualified professionals who are passionate in their commitment to saving money and maximising the return on your investment. In the United Kingdom we have the largest dedicated resource of experienced personnel with the longest history for providing capital allowances tax relief on real estate.

Background to Research and Development (R & D)

Historically, UK spend on R & D has lagged behind that of other countries. As part of the government’s move to improve innovation and therefore increase productivity, measures have been introduced over the last 10 years to encourage R & D activity.

The R & D tax relief schemes provide nearly £1 billion of support to over 8,000 companies every year. You could be one of them.

What are the tax incentives?

The incentives provided for R & D activities take the form of additional deductions. If you are a small or medium-sized enterprise (SME), the additional deduction is 125 percent on qualifying revenue costs from April 2012.

For large companies, an additional reduction of 30 percent is available on qualifying revenue costs, which equates to a tax benefit of 7.2 percent, following the corporate tax rate reduction to 24%.

Qualifying revenue expenditure for an R & D claim includes:

- Staffing costs;
- Consumable or transformable materials;
- Power, water and fuel;
- Software;
- Subcontracted R & D (generally not large companies);
- Clinical trials;
- Contribution to independent research (large companies only).

Any capital expenditure should not be ignored as 100% immediate relief is available in the form of research and development allowances, (RDAs). These equate favourably with other capital reliefs as the cashflow benefits are taken in year one, whereas for other allowances relief is typically spread over at least 10 years.

But what is R & D?

Most businesses will assume that if they do not have a designated Research and Development department, none of their activities will constitute R & D. However, the definition is generously drawn and it is likely to include many more activities than you think.

If your staff do research and development work and are seeking to achieve an advance in science or technology, provided the solution is not available to or deducible by a competent professional in the field, they will be performing R & D for tax purposes.

Remember:

- It’s not just men in white coats, research and development can take many forms;
- The project does not have to be successful for a claim to be possible;
- Claim does not have to equate to the amount disclosed in the accounts as R & D spend.
Payable Tax Credits

For loss-making SMEs, a payable tax credit is available, equating to 24.75%. The Budget announced changes which came into force from April 2012 which removed the provision limiting the credit claimed to the amount of the company’s PAYE and NIC liability. This means that companies in loss-making positions should be able to claim the credit for losses incurred in the year. It will be particularly useful for those companies with low staff costs.

Time Limits

A claim for tax credits, cash back or RDAs must be made within 12 months of the year end in which the expenditure is incurred.

Consultations

The UK Government is clearly serious about making the UK a key location globally for all companies to innovate. Consultations over the last few years have brought enhancements to the legislation for the SME regime. There is now ongoing consultation about a possible “Above the Line” credit for large companies which if introduced, will bring the tax relief in line with the function where research and development investment decisions are taken.

The Consultation also discusses the possibility of a payable credit for loss making companies.

How can we help?

Are you a company operating in any of the following sectors:

- Manufacturing
- Automotive
- Engineering
- Aerospace
- Food processing
- Software development
- Defence
- Pharmaceutical
- Renewable energy
- Bio-technologies

If so, consider the following questions and if the responses are positive, you may well be carrying out research and development that will qualify for significant tax relief:

- Do you manufacture something that you continue to develop?
- Do you have a design or a research team?
- Have you developed any software in-house?
- Have you filed any patents?
- Are you a market leader in your field?
- Are you improving your products or services?
- Are you improving your processes, perhaps reducing waste produced or machine down times?
- Do you have to continually develop products and processes due to changing legislation or guidelines?
- Are you carrying out design work for anyone else?
- Are you working on projects with unique challenges or environments?
- Have you spent time and money on developing prototypes?
- Have you spent time and money on scaling up prototypes or research work?

Any of these may indicate that you are carrying out activities that may be eligible for research and development tax relief. In our experience, claimants will often underestimate the value of their research and development activities.

For further advice concerning any of the issues raised in this briefing, please contact one of our key individuals detailed on our website at http://www.bankingtaxfinance.com