

# *R&D Tax Relief*

Brief scheme overview

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## ***What is R&D Tax Relief?***

Research and development (R&D) tax reliefs are a Government incentive launched in 2000 designed to encourage more companies to invest in innovation.

The Government have set a target that the UK's total investment in R&D will be 2.4% of GDP by 2027. The R&D Tax Reliefs have a large part to play in reaching this target as they are a valuable injection of funds to enable businesses to invest in accelerating their R&D projects and ultimately growing.

There are two different schemes, one for SMEs and one for larger companies.

## ***How does R&D Tax Relief work?***

If a company spends money (qualifying expenditure) on projects that are classed as R&D (qualifying activities) then they will most likely be eligible to claim R&D Tax Relief.

The benefit received will depend on the company's financial position and which scheme they will need to claim through and will either be a cash payment or a corporation tax reduction.

## *How do you qualify?*

- › Be a limited company in the UK that is subject to corporation tax (but do not need to have paid any corporation tax) and have undertaken qualifying research and development activities.
- › Have incurred qualifying cost for these projects.

## *What is qualifying activity?*

The definition of R&D for the scheme is very broad and is the same for all size companies and all sectors if your company is taking a risk by ‘attempting to advance the field or technology or science’ or ‘resolve scientific or technological uncertainties’ then you may be carrying out qualifying activity.

This could include the creation modification or changing of products processes and services.

If you’re not sure if your project is possible and the information on how to achieve it is not readily available, you could be resolving technological uncertainties and be carrying out qualifying R&D.

## ***What costs qualify for R&D tax credits?***

- › Staff costs: Including salaries, employer's NIC, pension contributions and reimbursed expenses.
- › Subcontractors and Externally Provided Workers: Can include companies you sub-contract work to and agency workers.
- › Consumable materials: Waste materials and consumables including heat, light and power that are used up during the R&D process.
- › Software: Software licences you needed to deliver the R&D project.
- › Payments to the subjects of clinical trials.

(The costs claimable can differ between the two schemes)

## ***What makes you SME or large (RDEC)?***

### **SME:**

- › Fewer than 500 staff and either not more than €100 million turnover or €86 million gross assets.

### **Large company:**

- › 500 staff or more and either more than €100 million turnover or €86 million gross assets.

However, there are a few factors such as grants and subcontracting that can mean an SME will claim through RDEC or both schemes.

## *How do I claim?*

A claim for R&D Tax Relief is made through HMRC's Additional Information Form (AIF) and your corporation tax return (CT600L) that is submitted to HMRC.

There are many other factors to making a compliant claim and these include a technical justification and financial schedules to demonstrate how the claim value was calculated.

Due to the complexities of the two schemes and understanding what is qualifying activity, we would always recommend seeking professional advice.

*“If your company is carrying out R&D, it could be eligible for generous R&D tax relief from expenses.”*

*Now you have completed  
your R&D have you  
considered a patent?*

***What is  
Patent Box?***

Patent Box is another Government scheme to support companies who invest in innovation. This could enable you to pay a reduced corporation tax rate of 10% on profits – if they come from the sale of products or services containing a qualifying patented innovation.

The relief can be applied to profits from the worldwide sales of patented products even if the patent only applies to a small part of the total product. It can also apply where patents have been acquired or you have an exclusive license but there are further conditions to meet and the relief may be reduced.

## ***Who and what qualifies for the Patent Box?***

Patents can only qualify if they are granted by the UK Intellectual Property Office, the European Patent Office, or specified EEA countries.

Patent Box can be claimed for newly granted or acquired patents; however the UK claimant company must have had, or intend to have, a significant involvement in development of the patented invention, or a product incorporating the patented item.

If you have applied for a patent and the application is pending, you may be able to go back to the date the application was made and claim benefit from this date under the scheme.

## ***Have patents already?***

Speak to an expert regarding a potential claim to see if you could derive a tax saving from the scheme; the savings can be substantial.

***Don't have  
patents?***

Have you considered applying for a patent?

Not only does it provide protection for your IP but will also have tax benefits.

Do you have a product or process that is a high revenue earner for your business?

Then you should consider looking at the potential for a patent, as it may reduce your tax liability.

***Forward thinking.  
Straight talking.***

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