

## **CORPORATION TAX: RESEARCH & DEVELOPMENT RELIEF**

Research & Development (R&D) Relief is a Corporation Tax relief that can help reduce the tax due or, if the company is small or medium-sized, provide a tax credit.

The relief is only available to companies or organisations liable to Corporation Tax and only applies to 'revenue' expenditure (generally, the day-to-day running costs of a qualifying project) and not 'capital' expenditure (the purchase of assets), which may instead be covered by R&D capital allowances.

There are two schemes for claiming relief depending on the size of the company:

- The Small or Medium-sized Enterprise (SME) Scheme.
- The Large Company Scheme

### **What is a SME for R&D Relief?**

A company will qualify as a SME if it has fewer than 500 employees and either an annual turnover below €100 million or a balance sheet below €86 million. This definition applies from 1 August 2008.

- The company may fail if it is part of a larger organisation that, taken as a whole, would fail the test.
- If the company is either owned 25% by another company, or owns 25% of another company, these other companies need to be taken account of when looking at the limits.
- The definition of SME for R&D Relief is different to those used in other areas of Corporation Tax and for other taxes such as PAYE. It has also changed over time.
- Companies that do not qualify as SMEs automatically fall into the Large Company Scheme.

### **The Relief**

The rate of relief depends on which Scheme the company qualifies for:

<b>SME Scheme</b>	225% rate of enhanced deduction (the usual P&L account deduction, plus an extra 125% deduction on the computation)
<b>Large Company Scheme</b>	130% rate of enhanced deduction (the usual P&L account deduction, plus an extra 30% deduction on the computation *)

\* An alternative 'Above the Line' (ATL) relief is available for qualifying expenditure incurred on or after 1 April 2013. It is a taxable credit being 10% of qualifying R&D expenditure. It is optional until 1 April 2016 when it becomes mandatory.

In most cases expenditure has to be paid, not just accrued, before the claim is made. It must also meet the stringent definitions of qualifying R&D expenditure to be allowed.

Whilst the Schemes are largely similar, there are some important differences:

- A loss-making SME can choose to claim a payable R&D tax credit instead of carrying a loss forward or surrendering it for group relief. The credit is given at 14.5% of the surrenderable loss.
- SMEs can claim for expenditure on R&D subcontracted to others, but Large Companies can only claim for R&D they carry out themselves (or subcontracted to qualifying bodies).
- Large Companies can claim for contributions to independent research, SMEs cannot.
- SMEs suffer a reduction to claims if the R&D project is subsidised or they receive a grant. Large Companies do not suffer a reduction.
- In some cases SMEs can claim for expenditure under the Large Company Scheme if the expenditure qualifies for that but not the SME Scheme.

This factsheet contains general advice only based on our understanding of current legislation. It should not be relied on as a basis for any decision or action. Professional advice specific to the situation should always be obtained.

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### **The R&D Project**

In order to qualify for R&D Relief a project must seek to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty, and not simply an advance in the company's own state of knowledge or capability.

The project must also be related to the company's trade, either an existing one or one that is intended to start up based on the results of the R&D.

There are guidelines that define the following terms:

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| <ul style="list-style-type: none"> <li>• Project</li> <li>• Advance in science or technology</li> <li>• Science</li> </ul> | <ul style="list-style-type: none"> <li>• Technology</li> <li>• Directly contribute</li> <li>• Scientific or technological uncertainty</li> </ul> |
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### **What costs qualify for R&D Relief?**

If the company and project meet the qualifying conditions, tax relief can be claimed on certain items of revenue expenditure. The costs for planning, design, testing and analysis qualify but costs of actual production, distribution and marketing do not.

<b>Cost</b>	<b>General notes</b>
<b>Employee costs</b>	<ul style="list-style-type: none"> <li>• Employing staff directly who are actively engaged in R&amp;D.</li> <li>• Staff are employed under a contract of employment directly with the company.</li> </ul>
<b>Staff providers</b>	<ul style="list-style-type: none"> <li>• Claim 65% of payments to a staff provider for staff provided to the company who are directly and actively engaged in carrying out R&amp;D.</li> </ul>
<b>Materials</b>	<ul style="list-style-type: none"> <li>• Consumable or transformable materials used directly in R&amp;D.</li> <li>• Actual, physical materials consumed in the R&amp;D, but not things like telecommunication or data costs.</li> </ul>
<b>Payments to clinical trial volunteers</b>	<ul style="list-style-type: none"> <li>• The cost of relevant payments to subjects of clinical trials.</li> </ul>
<b>Utilities</b>	<ul style="list-style-type: none"> <li>• Power, water and fuel used directly in carrying out R&amp;D, but not things like telecommunication or data costs.</li> </ul>
<b>Software</b>	<ul style="list-style-type: none"> <li>• Computer software used directly in the R&amp;D.</li> </ul>
<b>Subcontracted R&amp;D expenditure</b>	<ul style="list-style-type: none"> <li>• Under the SME Scheme the company can claim back 65% of what is spent on certain R&amp;D activities carried out by subcontractors.</li> <li>• Special rules apply to subcontractors connected to the company.</li> <li>• Large Companies can only claim expenditure on activities that are undertaken directly on their behalf by certain subcontractors.</li> </ul>

Where costs might be split between R&D activity and other work, such as staff costs, you can only claim for the appropriate, qualifying, proportion of the cost.

Unless the cost falls into one of the specific categories, it cannot be claimed. Other expenditure on R&D projects such as travel and subsistence costs, car hire, motor vehicle costs and telephone costs are not therefore allowable.