

Unlocking R&D tax relief

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Statistics from H M Revenue and Customs reveal that many eligible companies are not taking full advantage of research and development tax relief, which offers a super tax deduction on costs incurred by businesses that innovate.

Serial inventor and entrepreneur Sir James Dyson has recently joined the long list of high-profile advocates of a knowledge-based UK economy driven by investment in innovation by the private sector.

Although it is important to focus on this strategy, in reality, there may only be a small number of ways in which this innovation drive will affect your business. Unlike one of Dyson's creations, the UK tax system is far from an efficient, sleek design.

Alongside government support packages in the form of grants, research and development (R&D) tax relief is a primary tool that should be utilised to incentivise UK companies to invest more in innovation. This generous tax relief provides companies with qualifying R&D activities with a super tax deduction on costs incurred.

Although the public awareness of this relief has increased, H M Revenue and Customs' (HMRC's) own statistics reveal that many eligible companies are not taking full advantage of available reliefs.

So what is the problem? Upon discussions with clients and their advisers, the following excuses are most common.

We don't qualify

In essence, R&D tax relief is available to any company, of any size and in any industry. Companies receiving financial assistance and those operating as subcontractors may also qualify for the relief.

The definition of which projects may qualify does restrict the relief, but if a company uses R&D to alleviate uncertainty when developing a process, product or service, it is likely that R&D tax relief will be available.

It is, therefore, important to contact a trusted specialist adviser who can explain the complexities of the R&D tax relief regime and help to decide which projects may qualify for relief. Most advisers should have existing relationships with HMRC inspectors who can sound out the project in advance.

We are worried about HMRC's reaction to a claim

There is no evidence to suggest that HMRC take a harder line with companies that submit a claim for R&D tax relief. In fact, quite the opposite is true. In a recent conversation with an HMRC inspector, he was able to highlight that HMRC really do want to see more companies making genuine claims, as more companies taking advantage of the relief means that HMRC is doing its job in supporting innovation in business. This insight, coupled with the support offered by HMRC specialists, promotes a positive view for businesses.

It is too time consuming

An initial time commitment would be required, although generally only if the company has not made a claim for R&D tax relief in the past. Once the R&D tax relief claim process is up and running, the adviser should be able to assist your company with future recording to make the whole process as straightforward as possible.

For a small or medium-sized entity, the cash tax effect from making an R&D tax relief claim could represent a cost saving of between 15.75 per cent and 21 per cent on the initial project investment.

Although the relief is less generous under the large company scheme, cost savings of up to 8.4 per cent on initial investment can be achieved.

It will cost too much

Many tax advisers see R&D tax relief as a 'value-added' service and will charge contingent fees based on the amount of tax relief generated. It is important to note that R&D tax relief is a right, not a privilege, and the cost of obtaining this relief should not be prohibitive compared to the cash benefit. Many advisers will provide cost-effective services to all clients, regardless of size, so take time to consider the options available.

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<http://www.theengineer.co.uk/policy-and-business/unlocking-rd-tax-relief/1001979.article>