



Research and Development Tax Relief Overview

Background

Research and development (R&D) is paramount to the success of businesses in many different sectors regardless of the company size or profile.

UK taxation legislation is continually updating to reflect this importance and provides substantial incentives and relief to companies undertaking qualifying research and development activities.

Our aim is to provide dedicated expertise to our clients to maximise the tax relief available.

What is R&D?

H M Revenue and Customs acknowledges the guidelines published by the Department of Trade and Enterprise in 2004 to determine whether research and development exists for tax purposes.

A summary of the definition is that R&D takes place where there is a *project* with activities that *directly contribute* to achieving an *advance* in science or technology through the *resolution of scientific or technological uncertainty*.

R&D relief on capital expenditure

Capital expenditure incurred by companies on qualifying research and development projects can qualify for capital allowances at a rate of 100%, therefore the company can effectively expense the capital spend in one year regardless of the treatment of the expenditure disclosed in the company accounts.

R&D tax credit relief

Expenditure of a revenue nature on qualifying research and development projects can qualify for additional taxation relief in the period in which it was incurred.

Small or medium enterprises can claim tax relief equal to 200% of the qualifying expenditure (i.e. for every £1 spent, the company can reduce taxable profits (increase relievable loss) by £2) or the company can surrender the expenditure to H M Revenue and Customs to claim a repayable tax credit equal to 12.5% the uplifted expense (14% prior to April 2011).

The new rates are announced in Budget 2011 and are due for ratification in summer 2011.

Period	Relief
Post April 2012	225%
To April 2012	200%
To April 2011	175%
Prior 1 August 2008	150%



Research and Development Tax Relief Overview

Large enterprises can claim tax relief equal to 130% (125% prior to 1 April 2008) of the qualifying expenditure (i.e. for every £1 spent, the company can reduce taxable profits (increase relievable loss) by £1.30.)

Expenditure which may qualify for R&D tax credit relief includes employee costs, consumable materials and utilities.

Common misconceptions

Only companies with 'men in white coats' can avail of R&D tax relief.

A company undertaking grant-aided research and development cannot claim enhanced tax relief.

Companies that sub-contract out R&D activities cannot qualify.

Examples of companies who have successfully claimed R&D tax credit relief:

(i) Auto-mobile part manufacturer

Project: Development of enhanced product range using lighter materials.

(ii) Food processor

Project: Upon purchase of competitor, successful integration and upgrade of the competitor's processing facilities in-line with the purchaser.

(iii) Software developer

Projects: In-house software development and development of software for blue-chip clients.

(iv) Medical researcher

Project: Development of new (and enhanced) pharmaceutical products.

(v) Insurance broker

Project: In-house expenditure to produce software package for claims handling.



Research and Development Tax Relief Overview

How can we help?

- Identification of qualifying projects.
- Identification of qualifying capital expenditure.
- Identification of qualifying revenue expenditure.
- Preparation of the claim (current and retrospective) to be submitted to H M Revenue and Customs.
- Advice on in-house claim preparation.
- Provision of claim templates.
- Advice on loss / credit utilisation.
- Liaison with accountant / tax advisers.
- Negotiation with H M Revenue and Customs.
- Advice regarding financing of projects.

Capitus offers a range of services designed to maximise the relief available.

If you have any queries on research and development tax relief, please contact Andrew Reid on 028 2564 7022 or reid@capitus.co.uk