PKF FRANCISCLARK

Chartered accountants & business advisers

Research & development expenditure credit

Available to companies that do not qualify for tax relief under the more generous SME scheme, a 12% research and development expenditure credit is payable in respect of qualifying R&D expenditure regardless of whether or not the company has taxable profits.

Recent statistics show that more than 25,000 companies are claiming enhanced tax relief using the R&D tax schemes. This is a very small fraction of the companies registered at Companies House. So why do so few companies take up this generous relief? Is it because R&D tax relief is too difficult to obtain? Maybe R&D is undertaken by only a very small percentage of companies? Or, perhaps a lot of companies are just missing out?

What is the research and development expenditure credit?

The research and development expenditure credit (RDEC) is principally aimed at companies and groups that are too large to be eligible to claim relief under the SME scheme and accordingly is sometimes referred to as the large company scheme. A company is a large company if it has more than 500 employees or has turnover of greater than €100m and a balance sheet total of greater than €86m.

It is also available to SME companies in respect of expenditure which fails to meet the conditions for SME relief because of the receipt of subsidies, grants or because the work was subcontracted to them by another SME company.

The credit is simply calculated as 12% (11% up to 31 December 2017) of the qualifying expenditure attributable to qualifying R&D projects. Accounted for above the tax line of a company's accounts it is designed to better incentivise investment in R&D. Being taxable itself, the net credit is worth 9.72% (8.9% to 31 December 2017) of qualifying expenditure at 2017/18 and 2018/19 corporation tax rates.

What is qualifying R&D?

R&D has a wide meaning - broadly covering any project that 'seeks an advance in science or technology through the resolution of scientific or technological uncertainties'. Whether or not a project achieves its objective is irrelevant here; the costs of an abortive project are as allowable as those relating to a successful endeavour. Any field of science or technology may be the focus of an R&D project; from 'softer' technology projects such as developing improved food packaging through to software engineering and on to 'hard' science topics like micro-electronics and engineering problems. It is always worth considering whether any part of a business' activity comes within the definition of R&D.

What expenditure can be included in an R&D claim?

To qualify for relief, costs must be 'revenue' in nature and not capital expenditure (there is a special capital allowances regime for R&D-related capital expenditure). Only specific types of expenditure can qualify for R&D tax relief:

- Staffing costs (including secondary Class 1 NIC and employers' pension contributions) of directors and employees directly associated with the R&D activity. This will not usually include the costs of purely administrative and similar support staff, and in some cases an apportionment of costs will be appropriate.
- Consumable items that are used up or transformed as part of the R&D so that they are no longer usable in their original form. This can include a 'just and reasonable' proportion of overhead consumables such as water, fuel and power but must not include any production costs for materials that ultimately end up as part of a sold product.
- Software that is used in the R&D projects.

- Externally provided workers - payments to an agency or other ‘staff provider’ for temporary workers who are directly and actively engaged on R&D. Normally the claimable cost is based on 65% of the payment actually made, unless the claimant and the staff provider are connected companies (or elect to be treated as connected companies) when 100% of the relevant costs may be claimed.

Unlike, the SME scheme (see Research & development tax relief for small to medium sized enterprises factsheet), subcontracted R&D is not eligible for relief. This is to ensure that two companies cannot make a claim for tax relief in respect of the same R&D project - see Research & development tax relief for small to medium sized enterprises.

Making a claim

A R&D claim must be included in a company’s corporation tax return and has to be made within two years of the end of the relevant accounting period. If a company has already filed its return for the period in question, an amended return can be submitted within the same two year period, to include a new or revised R&D claim. HMRC has several specialist R&D units set up specifically to deal with all company tax returns that include a claim for relief. It is generally recommended that an overview of the R&D claim is provided with a company’s CT return/amended return.

How can PKF Francis Clark help?

PKF Francis Clark has a specialist team dealing with the tax aspects of business innovation and intellectual property - the Innovation and Technology Tax Group (ITTG). If you would like to discuss research & development relief/tax credits; research & development capital allowances; the patent box; the corporate intangibles regime; or any related issues please contact any member of the ITTG:

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