



## Research & Development Tax Credits

### **What are they?**

They are a way for the government to reward companies for R&D investment, as it believes that in order to compete in a global economy UK plc needs to be an innovative and enterprising economy.

R&D tax credits come in two basic forms:

1. For companies generating profits a deduction from taxable profits equivalent to 150% or 125% of qualifying R&D expenditure, depending upon whether the small or large business scheme is adopted, as opposed to standard 100% cost deduction.
2. For 'small' companies making trading losses a cash refund equivalent to 24p for each qualifying £1 of R&D expenditure.

### **What is qualifying expenditure?**

There is a long complex formal definition (visit [www.hmrc.gov.uk/randd/index.htm](http://www.hmrc.gov.uk/randd/index.htm)) but in essence R&D expenditure is:

R&D staff costs (excluding benefits in kind) plus consumable stores and some allowable direct sub contracting costs. R&D for tax purposes being when a project seeks to achieve an advance in science and technology. Work in a scientific or technological field is not by itself sufficient to qualify it must be work to resolve scientific or technological uncertainty.

As a guide developing information or other 'content' is not R&D but developing a means to deliver 'content' can be R&D. Capex related to R&D work does not qualify – it has capital allowance relief.

### **How to claim R&D tax credits.**

- There is a qualifying expenditure threshold of £10,000, so if expenditure has been less than this amount no claim can be submitted.
- If the qualifying expenditure threshold is met then the Tax Credits are claimed as part of a company's standard annual corporation tax return (form CT600).
- Companies who have received grant funds via special schemes – such as DTI R&D grants (Smart Awards), within the particular twelve month accounting period, cannot also claim 'cash back' when they have made a trading loss (although if a profit has been made they can qualify for the enhanced deduction for tax purposes at the large company rate of 125%).
- The Revenue has had some criticism about inconsistency in its handling of Tax Credit claims and in response in December 2005 announced its intention to establish specialist units to handle all Tax Credit claims from SME's. In this way the Revenue will develop expertise in the handling of claims, hopefully improve service and consistency.

### **What you need to do if you think you will qualify for Tax Credits**

1. Establish a system to monitor time and money spent in activities that are likely to meet the 'qualifying R&D expenditure' criteria. Any recording of qualifying R&D activity needs to be robust enough to withstand questioning by a Tax Inspector!
2. If in doubt about whether your R&D activities would qualify, gather your thoughts on the matter and pick up the telephone to your Tax Inspector before making the claim (alternatively ask your Accountant to do so). Yes, believe it or not, Tax Inspectors will help you if they are approached in the right way.

