

## RESEARCH & DEVELOPMENT TAX CREDITS

R&D Tax Credits have been with us for a few years now, during which time changes have come and gone. They are not the easiest tax relief to understand, nor the commonest of course.

**Research & Development** – for these purposes is defined as R&D undertaken by a company, or on its behalf (by a subcontractor), and which is related to the companies trade, or to an extension of the companies trade.

**Expenditure eligible for relief** – would be staffing costs (including directors remuneration), software, consumable stores & sub contracted R&D.

**What is the relief** - well, this depends on who incurs the expenditure and whether its subcontracted or not:

Expenditure incurred by	Work done by	Relief goes to	Relief %	Claim under
SME	self	self	175	SME scheme
Large company	self	self	125	Large company scheme
SME	SME	SME	175	SME scheme
SME	Large company	SME	175	SME scheme
Large company	Large company	Sub contractor	125	Large company scheme
Large company	Non company	Large company	125	Large company scheme
Large company	SME	SME	125	Large company scheme

NB only 65% of work sub contracted by an SME qualifies as R&D expenditure – the other 35% is assumed to be the profit margin of the subcontractor rather than their expenses.

A SME (small or medium sized enterprise) has (a) less than 500 staff and (b) either (i) turnover of less than €50m or a balance sheet of less than €43m.

A large company is any company which exceeds the above threshold.

**Other criteria** – in summary:

**SME scheme**

150% rate of enhanced deduction  
 Payable credit of up to £24 for every £100 of qualifying expenditure on R&D  
 Company can claim for expenditure on R&D it sub-contracts to others (65%)  
  
 Company cannot claim for contributions to independent research  
 Claim can be reduced if the R&D project is subsidised or a grant is received in respect of it  
 Company must own the intellectual property arising out of the R&D

**Large company scheme**

125% rate of enhanced deduction  
 No payable credit  
  
 Company can only claim for expenditure on R&D it carries out itself, unless it sub-contracts R&D to certain qualifying bodies, individuals or partnerships of individuals  
 Company can claim for contributions to independent research  
 No reduction for grant or subsidy  
 Company need not own the intellectual property arising out of the R&D

**The relief** – is given as a percentage uplift in the value of qualifying R&D expenditure (generally a 75% uplift for SMEs, and 25% uplift for large companies).

EG if qualifying expenditure was £50,000, for an SME the tax deduction given would be £87,500.

NB under both the SME and large company scheme a minimum of £10k per annum must be spent. If R&D is less than £10k per annum then no claim can be made.

**Repayable credits for SMEs** – if a claim is due under the SME scheme but there is no tax payable due to losses, then a claim can be made for a cash repayment.

The claim would be the lower of (a) the company's PAYE and NI payments and (b) 16% of either the loss or uplifted R&D expenditure, whichever is the least.

NB the qualifying conditions for R&D relief have changed a number of times – it's a favourite area for Government meddling – so please check the current conditions with HMRC.  
<http://www.hmrc.gov.uk/randd/> is a good source of information.

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