

TAX

Research & Development



Background

Updated after the budget summary 23 March 2011

The R&D Schemes

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Research and Development (R&D) relief was introduced to encourage companies to invest in the advancement of technology and science. The relief is available to any enterprise that is subject to tax under the Corporation Tax regime. The schemes are governed by the Department of Business Innovation and Skills (BIS) guidelines of 2004.

Qualifying Projects

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R&D can only be claimed on "qualifying projects" which are defined as "those projects that seek to achieve an advance in overall knowledge or capability in science or technology through the resolution of scientific or technological uncertainty". The project must be related either to the company's existing trade, or to a trade that it intends to start up, based on the results of the R&D project. R&D takes place even if the advances sought by the project are not achieved or fully realised.

What Costs Qualify

Advances include new or improved products, processes and services.

Subsidies and Grants

The R&D Schemes

There are two separate schemes, one for Small and Medium sized enterprises (SME) and the other for large companies.

What Costs Qualify

Provided the project meets the necessary requirements to qualify as an R&D project, the company may claim costs incurred on the project in respect of employee costs, materials, utilities (power, water and fuel), computer software, subcontracted costs. Capital expenditure may qualify for enhanced capital allowances.

The Relief

Under both schemes, there is a minimum R&D spend of £10,000. This minimum is to be removed with effect from 1 April 2012.

Subsidies and Grants

Subsidies and grants received in respect of the qualifying project may affect the amount that can be claimed under R&D.

Record Keeping

Even where a company is an SME, in certain circumstances projects may not qualify under the SME scheme, however

Any "State Aid" grant or subsidy received disqualifies the project from R&D under the SME scheme, but in certain

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circumstances it may still be possible to make a claim under the Large Company Scheme for that project. Other subsidies and grants will reduce the amount eligible for the uplift.

The Relief

Relief is given by the uplift of eligible expenditure by the percentage permitted under the relevant scheme. The current amounts are

| | |
|--|-----|
| SME Scheme | 75% |
| (100% from 1 April 2011, 125% from 1 April 2012) | |
| Large company scheme | 30% |

Where the company makes a profit, the uplift will reduce the amount chargeable to Corporation Tax.

If the company makes a loss it can choose to carry the loss forward, or backwards.

Where the company makes a loss **and** the claim is made under the SME scheme, it can choose to surrender the loss and convert it to a tax credit (a cash payment from HMRC).

The tax credit can only be claimed where the company is a going concern (and would continue to be a going concern without the tax credit) and has PAYE and National Insurance contribution liabilities for that year in excess of the tax credit. This limit is to be removed with effect from 1 April 2012.

The tax credit is calculated on the loss arising at a rate determined from time to time (currently 14%).

Record Keeping

There are no specific requirements for record keeping, except that sufficient records must be maintained to support the entries on the Company Tax return.

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