

TAX

Research & Development



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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

The R&D Schemes

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

An SME is defined as having less than 500 employees, an annual turnover of less than €100 Million and a Balance Sheet total of less than €86 Million. Where a company is part of a larger enterprise (such as a group of companies) these limits apply to the enterprise as a whole.

For this purpose, a 'larger enterprise' includes parent companies, subsidiaries and 'partner enterprises' - any company which holds a 25% shareholding in the applying company and any company in which the applying company holds a 25% share.

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

Qualifying Projects

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.

Advances include new or improved products, processes and services.

Qualifying Costs

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 and 65% of subcontracted costs. Capital expenditure is excluded.

Subsidies and Grants

Subsidies and grants received in respect of the qualifying project reduce the amount that can be claimed as R&D.

Any "State Aid" grant or subsidy received disqualifies the project from R&D under the SME scheme, but in certain 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** 125%
- **Large company scheme** 30%

Tax – Research & Development

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 whether to carry the loss forward or backwards; or surrender the part of the loss which relates to the R&D spend plus enhancement percentage and convert it to a repayable tax credit.

The repayable tax credit can only be claimed where the company would be a going concern without the tax credit.

The repayable tax credit amounts are as follows:

- 1st April 2012 – 1st April 2014 - **11%**
- After 1st April 2014 - **14.5%**

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.

HM Revenue & Customs open enquiries into many R&D claims and their record keeping standards are quite strict, in particular they can demand timesheets and other records for those employees engaged in R&D, as well as descriptions of projects undertaken, aims and outcomes.

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