



Tax incentives for innovative companies

R&D tax relief

Overview

If your company innovates (in whatever its sector), then it is important to consider the generous R&D tax relief schemes. Claiming under the schemes could either reduce your company's tax bill or generate a cash refund.

The relief is given for expenditure (typically staffing, consumables, software and subcontractors) on:

- Projects seeking an advance in science or technology; or
- Activities undertaken with the aim of resolving a scientific or technological uncertainty.

It doesn't have to involve rocket science to be eligible!

CASE STUDY – Food Industry

The company imports foods from various countries and sell them to hotels, restaurants, delicatessens and supermarkets. They buy in bulk and then process the product into smaller packaging at their factory. The company has also spent time and effort looking at ways of improving the packaging of the various products to lengthen shelf life.

Through discussions with our client it became apparent that they were adopting innovative approaches to their packaging needs which would satisfy the criteria for an R&D claim to be made. They hadn't thought of this before. Our initial discussions led to a first year tax saving of circa £25,000.

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The specifics

There are two schemes:

Small & Medium Sized Enterprise (SME) scheme

For companies with:

- below 500 employees; and at least one of:
 - turnover below Euros 100m; or
 - assets below Euros 86m

Profitable companies benefit by an uplift of £1.30 for every £1 spent on qualifying R&D. At current rates of tax (19%) this could generate a corporate tax saving of 24.7p for every £1 spent. Loss making companies can surrender losses in the period in exchange for a repayable tax credit at a maximum of 14.5% - effectively generating cash refunds of up to £3,335 for £10,000 of qualifying expenditure.

Large company scheme

For periods ending on or after 1 April 2016, "R&D Expenditure Credits" - RDECs - are available to companies that have qualifying activities but do not meet the SME scheme criteria.

The relief is based on the same qualifying expenditure, but calculated in a different way, with a (taxable) credit equal to 11% (12% for expenditure from 1 January 2018) of qualifying R&D expenditure. Thus for every £10,000 of qualifying expenditure the corporation tax bill can be reduced by up to £972. Loss making companies may now claim a credit for a potential cash refund.

Other things to consider

Capital allowances - 100% relief offered for capital expenditure used wholly for R&D purposes can be of real benefit to help reduce a corporation tax bill or possibly increase cash refunds.

Grants/subsidies – this can be a complex area and companies can unwittingly make themselves ineligible for the more beneficial SME relief (and only be able to claim under the large scheme).

Advance Assurance - If your company hasn't claimed R&D relief before, has a turnover of less than £2 million and below 50 employees you might wish to consider the new Advance Assurance offered by HMRC. The advantage of this route is that you obtain complete

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certainty from HMRC that the approach taken is approved and won't be looked at for the next 3 years.

How we can help

Our tax advisers and accountants have, between them, decades of experience of handling R&D claims. They have worked on claims ranging in size from tens of thousands to millions of pounds. Our **tax team** also includes science graduates who are familiar with scientific and technological processes and terminology.

As a firm of chartered accountants and tax advisers we also understand the financial context of your R&D work. This may include any accounting implications – particularly for the RDEC, where the credit is accounted for “above the line” – and/or interactions with other taxes and reliefs, such as **patent box** and the wider international context of intellectual property ownership.

We have good working relationships with the relevant HMRC departments and are in regular contact with HMRC specialists to ensure our clients benefit from the most up-to-date knowledge.

Our approach

Each client is different so we are flexible in our approach depending on your needs and resources. For some clients (who like to undertake the work themselves) we will perform high level reviews – to give you peace of mind. Or you might prefer us to undertake the whole process for you. It's up to you.

Please contact your usual James Cowper Kreston contact or email msavory@jamescowper.co.uk if you would like to know more about R&D relief and how we can help.

This factsheet has been carefully prepared but it has been written in general terms and should be seen as broad guidance only. The factsheet cannot be relied upon to cover specific situations and you should not act or refrain from acting upon the information contained therein. Please contact James Cowper Kreston to discuss these matters in the context of your particular circumstances.

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