

R&D Tax Relief Research and Development Expenditure Credit (RDEC)

The Government is committed to encouraging research, development and innovation within the UK economy, to create an attractive regime for companies to develop and exploit intellectual property in the UK.

R&D has a much wider definition than many people think - remember that the Government wants your company to carry out research and development, and it wants you to claim R&D tax relief. RDEC relief can improve your company's profit margin and cash flow by reducing its operating costs and tax liability and, in some cases, by obtaining an additional tax repayment.

R&D tax relief is only available for companies – and there are two different R&D tax relief schemes depending on the size of your company. The RDEC scheme is available for large companies – those with more than 500 employees or annual turnover of more than €100m and total assets of more than €86m.

SME Relief:

The relief is available to small and medium sized companies (SMEs) is more generous – but not available in certain cases. Where R&D expenditure is funded (either by a grant or by a different entity) or in certain cases where a large company has a stake in the business, SME relief is denied, however RDEC is available and therefore also relevant to SMEs.

What relief is available?

RDEC can be claimed on the cost of employing staff who are directly or actively engaged in carrying out the R&D, the cost of the materials that are used in R&D and on payments made to certain subcontractors (i.e. those operating through unincorporated entities) that are assisting with the R&D.

The credit offsets the R&D cost above the 'operating profit' line at a 13% rate; which will increase operating profits by 13% of the eligible costs. The credit is taxable and therefore, assuming a tax rate of 19% the cash benefit is 10.53%. For expenditure before 1 April 2020, these figures were 12% of costs and cash benefit of 9.72%.

For a business that is not tax paying, either due to it being loss making, or it using up losses brought forward, a cash credit of 10.53p per £1 spend is available. This cash credit is limited to the amount of PAYE and NIC paid by the company during the period.

Example:


A company spends £20,000 on qualifying R&D. The company's profits will be increased by £2,600 and, with a tax rate of 19%, the tax payable is reduced by £2,106. Therefore, in addition to the standard tax relief for the expenditure, the total tax relief is £5,906 (£20,000 at 19% plus £2,106). This means that the net of tax cost to the company of incurring the expenditure is £14,094.


If the company was loss making it would instead be able to claim a cash refund of £2,106.

Continued overleaf

We welcome the opportunity to help you find solutions to your challenges and explore business opportunities.

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If you would like to discuss this in further detail, please get in touch with our friendly advisors below.

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What are the qualifying criteria?

What actually constitutes R&D is wide-ranging, but includes the development or improvement of a product or process – there must be a technological advancement and an attempt to resolve a technological uncertainty.

What is a technological advancement?

It is not enough that your new product is commercially innovative; it must be an extension to the existing body of technological achievement or make an appreciable improvement to an existing process, device, product or service.

What is a technological uncertainty?

It is the practice of taking a technologically feasible idea and turning it into a cost effective and reproducible process, device, product or service.

R&D claims are commonly made by businesses in the engineering, pharmaceutical, healthcare, software development, energy-saving and biotechnology fields, but successful claims have

also been made by some of our architect, manufacturing, design engineers and construction clients too!

Can I get help to establish my R&D tax relief claim?

The tax relief available is generous, but claims must be properly made to ensure they meet HMRC requirements. HMRC will review all claims carefully – so it is important to work with experienced tax advisers to ensure any claim meets the necessary criteria.

Any business that wishes to claim R&D tax credits should consult with its accountants or professional advisers. MHA Moore and Smalley has significant experience in preparing and submitting R&D claims in a wide variety of industries and has developed excellent relationships with the relevant inspectors at HMRC.

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