



Research & Development Tax Credits

The Relief

Research and development (R&D) by UK companies is being actively encouraged by Government through a range of tax incentives. The incentives are only available to companies and include:

- increased deduction for R&D revenue spending and
- a payable R&D tax credit for companies not in profit

The R&D revenue relief increases the amount a company can obtain tax relief on to more than the normal 100% revenue deduction. This relief is 230% for expenditure incurred by a SME. Large companies are subject to a different regime not considered here. Alternatively, a SME may claim a payable R&D tax credit for an accounting period in which it has a surrenderable loss. For expenditure incurred on or after 1 April 2014 the amount of payable tax credit that a company is entitled to for an accounting period is 14.5% of the surrenderable loss for that period (previously 11%). For accounting periods ending on or after 1 April 2012 the R&D credit is no longer restricted to the PAYE/NIC liabilities of the company.

Guidance on relief

HMRC guidance suggests when making the claim for relief that a company should answer the following questions, so they can see how your view of the definition applies to your project.

- What is the scientific or technological advance?
- What were the scientific or technological uncertainties involved in the project?
- How and when were the uncertainties actually overcome?
- Why was the knowledge being sought not readily deducible by a competent professional?

Conditions

The second consideration is to ensure the relevant tax conditions are met, the most important being:

- the expenditure must be from a qualifying revenue category and not be capital expenditure
- the spending must not be incurred in carrying out activities contracted to the company by another person (however a slightly different form of R&D tax credit may apply - you may still be able to claim, as a subcontractor, under the Large Company Scheme
- the expenditure must not have been met by another person (if the R&D project is funded in whole or part by 'State Aid' such as a government grant, none of the spending on that project can qualify for R&D tax credits).



The R&D does not have to be undertaken in the UK. You must make a claim for R&D relief in your Company Tax Return. The normal time limit for making a claim is two years after the end of the relevant Corporation Tax accounting period.ⁱ

This fact sheet is published for the information of clients. It is intended as an overview of the regulations in force at the date of publication. Users should consult with detailed legislation or seek professional advice.

Therefore no responsibility for loss by any person acting or refraining from action as a result of the material can be accepted by the authors or the company.