

## Research & Development Tax Relief Update

### What is it?

The Government, as part of its agenda to build a modern knowledge based economy, and improve productivity, wishes to increase the amount spent on R&D by companies. To that end it has introduced two reliefs for companies incurring revenue expenditure in this way. One is for large companies and one for companies that are small or medium enterprises (SMEs).

### Who does it apply to?

R&D tax relief applies only to companies chargeable to corporation tax. Individuals, partnerships or Limited Liability Partnerships are not eligible.

### What qualifies as Research and Development for tax purposes?

The activities that constitute R&D for tax purposes are those that:

- *are capable of being accounted for as R&D (whether or not they are) under generally accepted accounting practice; and*
- *fall within the special definitions set out to be treated either as 'directly contributing' to seeking the advance in science or technology, or as 'qualifying indirect activity'.*

The advance being sought must constitute an advance in the overall knowledge or capability in a field of science or technology, not a company's own state of knowledge or capability alone.

In Summary the project must:

- *be an advance in science or technology*
- *face scientific or technological uncertainties*
- *involve knowledge not deducible by a competent professional in the field*

### What are the main conditions?

The company must:

- *be a going concern*
- *be subject to UK corporation tax*
- *Have spent a minimum of £10,000 (requirement removed from 1 April 2012)*
- *Have spent money on relevant R&D (Relevant R&D is R&D related to a trade that the company carries on, or to a trade that it intends to carry on).*

### Which scheme applies?

SME Scheme applies if the company has:

- *Fewer than 500 employees; and*
- *An annual turnover of no more than €100m;*

OR

- *Balance sheet assets no more than €86m*

In addition a large company scheme is also available.

### What relief is available under each scheme?

The relief is in the form of an enhanced revenue deduction for tax.

- **SME Scheme**

225% enhancement from April 2012 (previously 200% from up from 175% from April 2011)

Where there are no profits to redeem the enhancement against, you can surrender the loss for a tax credit @11% (prior to April 2012 the tax credit is capped at the total PAYE & NIC paid by the company in the period)

- **Large Scheme**

130% enhancement, No tax credit available, if the company has losses

Above the line credit now also available to non SMEs giving relief at 10% of qualifying expenditure.

### What categories of expenditure qualify for relief?

The following categories of expenditure will qualify for relief:

- *Staff costs - gross salary, employer's NIC plus any reimbursed expenses*
- *Subcontractor costs (only 65% of the costs qualify)*
- *Payments to externally provided workers*
- *Consumable costs - parts used in the R&D process plus potentially fuel, electricity, gas and water*

- *Computer software costs*
- *Payments to subjects of clinical trial*

### How are the reliefs calculated?

R&D relief is calculated by enhancing the qualifying expenditure when calculating the profits chargeable to corporation tax:

### How long have you got to make a claim?

Claims can be made up to 2 years after the company year-end so you can go back nearly 3 years.

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