



Research & Development (R&D) Tax Credits

R&D Tax Credits rewards innovation, drives progress and has the power to transform business.

Background

Research & Development (R&D) Tax Credits, a UK tax incentive designed to encourage companies to invest in R&D, was introduced in 2000 for small and medium enterprises (SMEs), with a separate scheme for larger companies launched in 2002.

It enables companies to reduce their tax bill or claim payable cash credits as a proportion of their R&D expenditure.

The R&D incentives have been enhanced over recent years. By helping to reduce the cost of corporate R&D, the UK government hopes to encourage and reward companies for investing more in R&D. In turn, this would increase innovation and wealth creation in the economy.

Businesses Eligible for R&D Tax Credits

Any company carrying out R&D is likely to qualify for the R&D tax credits. The definitions of eligible R&D and eligible costs are reasonably broad.

Eligible R&D activities takes place across a wide range of industry sectors, from pharmaceuticals to food manufacturing, and education to architectural design.

To be eligible, a business must be/have:

- A limited company in the UK subject to corporation tax;

- Carried out qualifying R&D activities;
- Advanced overall knowledge or capability in a field of science or technology and resolved scientific or technological uncertainties.
- Claim a payable tax credit if the company is loss making, worth up to 14.5% of the surrenderable loss.

Research and Development Expenditure Credit (RDEC)

RDEC replaces tax relief previously available under the large company scheme.

Large companies can claim RDEC for work on R&D projects. It can also be claimed by SMEs and large companies who have been subcontracted to do R&D work by a large company.

RDEC is a tax credit. Up to 31 December 2017, it was 11% of the qualifying R&D expenditure. This was increased to 12% from 1 January 2018 to 31 March 2020, and has been raised further to 13% from 1 April 2020.

Costs Qualifying for R&D Tax Credits

- Staff costs, including employers NIC, pension contributions and reimbursed expenses;
- Subcontractor costs; and
- Materials & consumables.

Types of R&D Tax Credits

There are different types of R&D tax credits depending on the size of the company and if the project has been sub-contracted to the company or not.

Small & Medium Sized Enterprises (SME) R&D Tax Relief

An SME can claim R&D tax relief if it has:

- Less than 500 staff; and
- Turnover of under €100m or a balance sheet total under €86m.

SME R&D tax relief allows companies to:

- Deduct an extra 130% of their qualifying costs from their yearly profit on top of the normal 100% deduction, i.e. a 230% deduction in total; or

Claiming R&D Tax Credits – How We Can Help

- Review eligibility for R&D Tax Credits.
- Preparing a detailed analysis and report of the R&D project to support the claim.
- Making a claim on behalf of the company and submitting to HMRC.
- Assistance with any follow-up queries from HMRC.

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