



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.

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

- 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.

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.

KLSA LLP
Chartered Accountants

E-mail: enquiries@klsa.net
Website: www.klsa.net

LONDON OFFICE
Kalamu House
11 Coldbath Square
London EC1R 5HL
Tel: 020 7490 5525
Fax: 020 8515 2809

HARROW OFFICE
Amba House, 3rd Floor
15 College Road
Harrow HA1 1BA
Tel: 020 8515 2800
Fax: 020 8515 2809

PARTNERS
Ketan Shah FCA
Ms Shilpa Chheda FCCA ACA
Shakunt Shah FCA CTA
Harsheel Dodhia ACA FCCA MABRP
Mert Ziya FTCA

This letter is written for the benefit of our clients. Further advice should be obtained before any action is taken.

KLSA LLP is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.