

# Tax Credits for R&D



**E-Futures**





## What Are R&D Tax Credits?

- **Research and Development (R&D) Relief is a Corporation Tax relief that may reduce your company or organisation's taxable profit by more than your actual expenditure on allowable R&D costs.**
- **SMEs and LEs may be eligible**

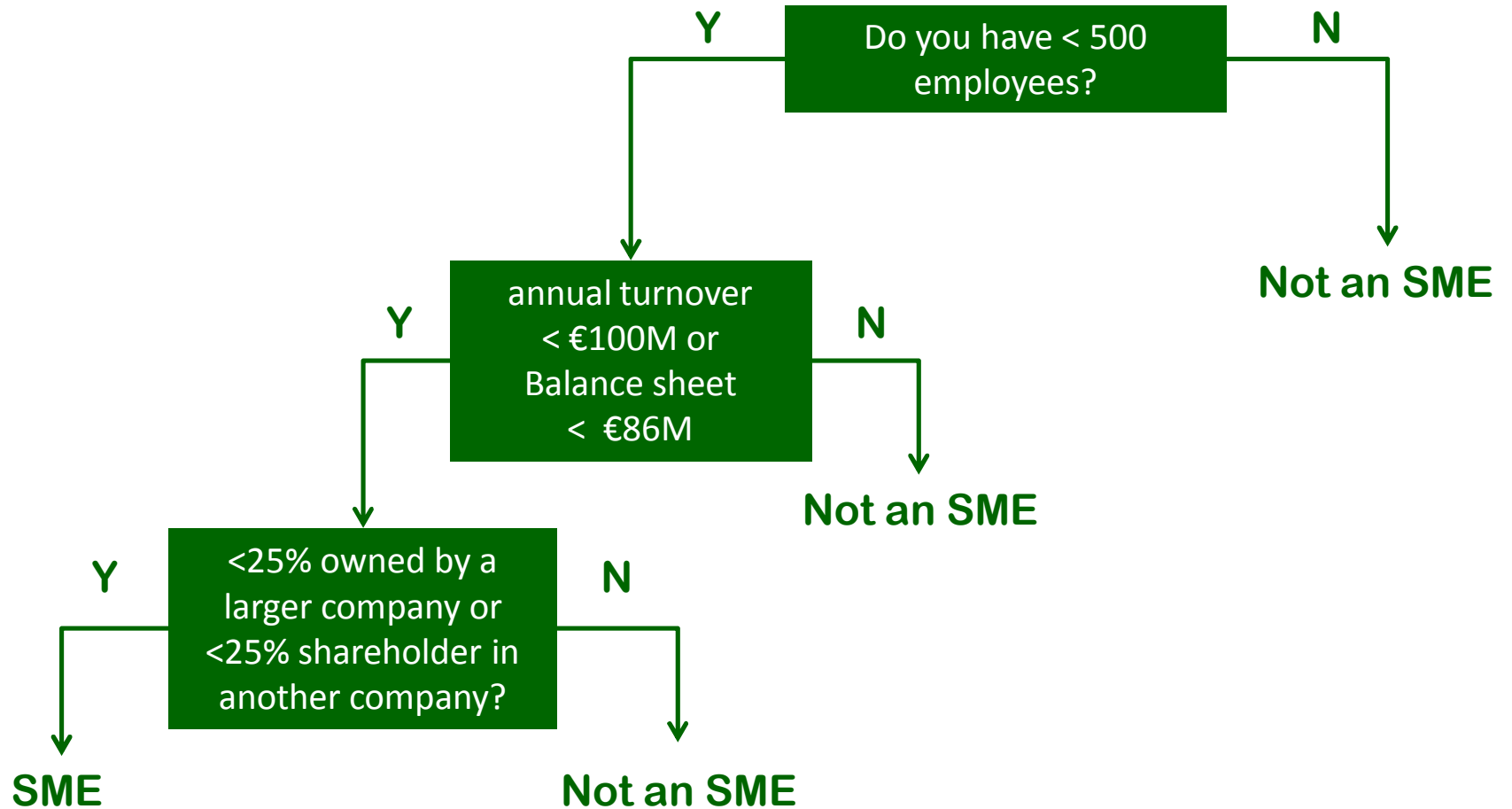


## Which R&D projects might qualify for Relief?

- Your company can only claim for a project that seeks to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty - and not simply an advance in its own state of knowledge or capability.
- It must be related to your company or organisation's trade - either an existing one, or one that you intend to start up based on the results of the R&D



# What is an SME for R&D purposes?





# The SME Scheme

- Tax relief is 175% of qualifying R&D costs
- For each £100 of qualifying costs, your company could reduce its profit chargeable to Corporation Tax by an additional £75

Example: R&D Relief for expenditure of £20,000 where the company has made a profit of £30,000

R&D Expenditure	£20k
Taxable profit	£30k
Additional R&D Relief	$£20k \times 75\% = £15k$
Taxable profit less R&D Relief	$£30k - £15k = £15k$
Revised taxable profit	£15k



# The SME Scheme

- If your company makes a loss you could claim a cash refund (tax credit) of 14% of the enhanced R&D costs

Example: R&D Relief for expenditure of £20,000 where the company has made a loss of £(30,000) and has paid PAYE and NIC of £5,000

R&D Expenditure	£20k
Allowable loss	£(30k)
Additional R&D Relief	$£20k \times 75\% = £15k$
Total enhanced R&D Relief	$£20k + £15k = £35k$
Revised tax loss	$£(30k) + £(15k) = £(45k)$
Loss surrendered for tax credit	$£35k \times 14\% = £5k$ tax credit
Revised loss carried forward	$£(45k) + £35k = £10k$



## The Large Enterprise Scheme

- Tax relief on qualifying R&D costs is 130%
- Relief is available if you spend at a rate of at least £10,000 a year on qualifying R&D costs in an accounting period.
- For each £100 of qualifying R&D costs your company could reduce its profit chargeable to Corporation Tax by an additional £30



## Which costs qualify for R&D Relief?

- Employee costs
- Staff providers
- Materials
- Utilities
- Software
- Subcontracted R&D expenditure
- Capital expenditure
- Testing is allowed as part of an R&D project



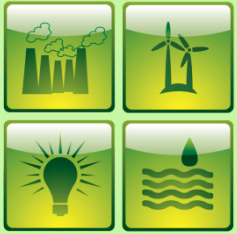


# Case Study for Loss Making SME

Allowable tax loss before R&D relief				£(420,000)	
R&D costs claimed in accounts			£57,500		
Enhanced R&D relief		75%		£(43,125)	
<b>Total R&amp;D costs claimed</b>	<b>175%</b>		<b>£100,625</b>		
<b>Revised tax loss</b>				<b>£(463,125)</b>	1
<b>R&amp;D tax credit</b>					
Potential tax credit	14%	X	£100,625	£14,088	2
PAYE & NIC paid			£20,000		3
<b>Tax credit refunded in cash restricted for PAYE &amp; NIC paid</b>				<b>£14,088</b>	
<b>Revised tax losses carried forward</b>				<b>£(362,500)</b>	

## Notes

- 1 The trading loss is increased by the enhanced R&D relief at 75% of the qualifying costs in the accounts
- 2 The tax credit is limited to the lower of the enhanced R&D or the tax loss resulting from that relief.
- 3 The tax credit is further restricted to the amount of PAYE and NICs paid by the company in the year.



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## More Information

[www.hmrc.gov.uk/ct/forms-rates/claims/randd.htm](http://www.hmrc.gov.uk/ct/forms-rates/claims/randd.htm)