



Fact or fiction?

Unlocking the truth behind
R&D tax relief

We have seen a number of persistent myths about the practicalities of **claiming R&D tax relief** over the years.

In life, legends and myths usually have practical roots – from parents persuading their children that eating carrots will improve their eyesight, to legends like the Yeti, probably created to warn people off roaming unaccompanied through the woods.

Most of the stories we hear about R&D tax relief, however, have arisen through misinformation, and can discourage businesses from claiming what their development activities warrant, or lead to incorrect claims that could result in adjustments or penalties.

Here we attempt to debunk these myths to help you understand how you can access this valuable tax relief.



Myth: Eating carrots helps you see at night

The general belief is that vitamin A, contained in carrots, aids night vision. This is not strictly true – a vitamin A deficiency can cause night blindness, but eating carrots won't entirely restore this.

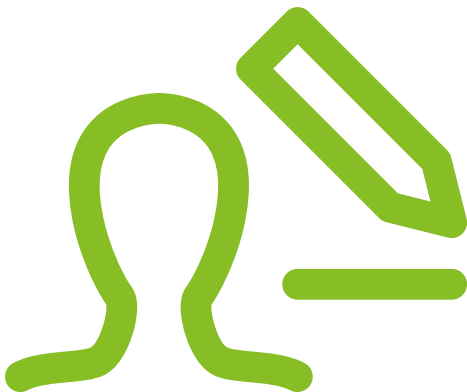
This misbelief originated during World War II, when the British Royal Air Force kept their new night radar technology secret by declaring their pilots' success was due to eating carrots.



Myth: Your company doesn't do any R&D and so there is no claim to be made

This is probably the most common misconception we hear. The definition of R&D for tax relief is much broader than many people believe. It covers a significant amount of development work where there is a level of complexity.

If you have teams working to solve technological challenges that involve a process of experimentation or prototyping, including software development, those activities may well be classed as R&D.



Legend: The Yeti roams free in Nepal

The indigenous people of the regions of Nepal, Bhutan and Tibet believe that a legendary creature known as the Yeti lives in the Himalayan Mountains.

Climbers have claimed to have found footprints, similar to that of a wolf, which may have led to the belief of its existence. In reality, no conclusive evidence has ever been found.



Myth: Your company makes losses and so cannot benefit from the R&D tax relief

Companies of all sizes can now claim their R&D benefit as a cash credit where they are loss making, but the wider tax implications also need to be considered.

Because R&D relief is managed through the tax system, realising the full benefit requires a good understanding of how it fits into your overall tax profile. One reason why some claims do not deliver the expected benefit is because of a wider tax issue that was not taken into account. Areas such as current year or brought forward losses, overseas taxes, transfer pricing or the interaction with other tax reliefs all need to be considered.



Myth: Eating bread crusts gives you curly hair

There is nothing in bread that can change the composition or behaviour of hair. The crust, however, may be the most nutritious part of a loaf of bread and is the possible reason for parents using this fib on their children. And why is curly hair an incentive? This one dates back to the 18th century when the curly-haired were considered more prosperous.



Myth: Your company can't claim because it receives grant funding or is paid for the work it undertakes by a customer or another group company

While costs relating to contracted work, or that are covered by a grant or other form of subsidy, are excluded from the Small & Medium sized Enterprise (SME) regime, they can still be claimed by companies of all sizes under the R&D Expenditure Credit regime. This is also available as a cash credit.

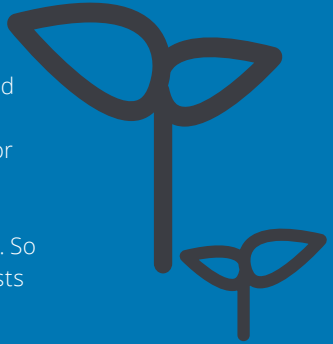
For SMEs any costs or projects that are not linked to a grant or reimbursed as part of a customer or group recharge arrangement but are undertaken at the company's own risk and expense may still be claimable under the SME regime.



Myth: A watermelon will grow in your stomach if you eat the seeds

This is another one to blame on the parents. The truth is that seeds need air, soil nutrients and water to grow – our stomachs are just too acidic for them to even survive.

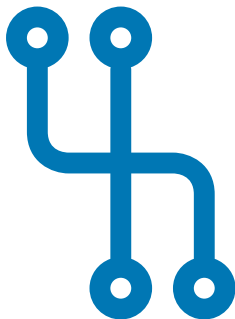
Seeds are seen as a choking hazard. So Mum and Dad had your best interests at heart here.



Myth: Your technical and finance teams are very busy and taking time out for claims would not be cost effective, particularly when responding to questions from HMRC

It is always necessary to involve your technical and finance teams in the claims process, as getting to a robust position is very difficult without their input. But this does not have to be excessive.

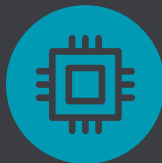
By focusing on the right areas and preparing documentation in a style and to a degree of depth that will help HMRC to understand the basis of the claim, the time involvement and likelihood of a drawn-out enquiry from HMRC can be mitigated.



Why Deloitte

Beyond the numerous myths surrounding the practicalities of preparing and agreeing R&D claims, we also often hear misinformation about choice of advisors.

We dispel three of the most common myths...

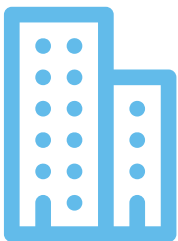


R&D Tax is not something Deloitte **specialises** in



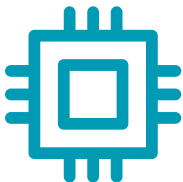
Our full-time team of 60 advisors has almost 350 years of combined experience in R&D tax relief. We also employ patent attorneys and tax professionals, who specialise in providing advice on the Patent Box regime, and grants specialists who can help secure funding for future R&D, employment and capital investment projects.

A firm like Deloitte will only work with **large, global** companies



The fact is that over half of our business is with privately owned organisations and we work with a range of companies from early stage start-ups to multinational corporations, flexing our approach and fee structure to ensure an acceptable and economic arrangement.

Deloitte doesn't employ **technical experts**



Deloitte was the first UK firm with a full-time team focusing on R&D tax relief and the first to employ experienced software architects and engineers to help companies with the process and reduce the burden on their technical teams. We also employ patent attorneys to help companies with the issues (and myths!) around patents they own, particularly in the software area.

Learn more about the R&D tax credit

Visit www.deloitte.co.uk/taxmyths for an interactive tool with more information on how the R&D tax claim process works.

We also dispel some more R&D tax myths along the way!

Next steps

Contact us to discuss how your business can access the innovation tax relief most effectively.

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