

Deloitte.



Look deeper. Seize the opportunity

Research and Development Expenditure Credit

Global Investment and Innovation Incentives (*Gi³*)

Companies can now benefit from a taxable credit to offset against their R&D investment, giving them an 8.9% net cash benefit (at current rates), regardless of whether the company is profitable or not.

If your company is engaged in challenging developmental activities that go beyond routine engineering, there is a good chance that at least some of those activities will be eligible for the relief.

The incentive applies to any industry, but is particularly relevant to manufacturing, engineering, energy and resources, technology, financial services, and life sciences. Additionally, companies investing in IT to support their business can often make a claim, even if their main activities are unlikely to involve R&D.

How it works

The Research & Development Expenditure Credit (RDEC) can be claimed by large companies for R&D expenditure incurred on or after 1 April 2013. A company is considered large if it does not meet the criteria to be considered a Small or Medium sized Enterprise (SME) – broadly fewer than 500 employees and annual turnover not exceeding €86 million. The RDEC is also available to SMEs for subsidised or funded expenditure that is disqualified from the SME regime.

The definition of R&D is broad and applies to activities which seek to achieve an advance in science or technology through the resolution of scientific or technological uncertainties, provided the solution is not available to, or readily deducible by, a competent professional working in the field.

Once an eligible R&D activity has been identified, the related qualifying R&D expenditure can be determined. Categories of qualifying expenditure include staff costs and payments for subcontracted services, or contributions to R&D undertaken by, qualifying bodies (such as universities, charities, health authorities), individuals, or firms of which each member is an individual.

Companies making an RDEC claim can record an 'Above the Line' taxable credit calculated as 11% for expenditure incurred between 1 April 2015 and 31 December 2017 and 12% for expenditure incurred on or after 1 January 2018. After accounting for tax at the current rate of 19% this will deliver a net cash benefit of 8.91% up to 31 December 2017 and 9.72% from 1 January 2018. The credit is generally recorded as 'grant' or 'other' income in the profit & loss account, with a relevant reduction in corporation tax payable on the balance sheet. If there are no tax liabilities against which the credit can be offset in the company or another UK group company, the credit can be recovered as a cash amount from HMRC.

If development costs that are considered to be revenue in nature have been recorded on the balance sheet within Intangible Assets it may still be possible to claim an immediate tax deduction and the benefit of the RDEC.

Capital expenditure cannot benefit from the RDEC regime, but can instead be claimed as Research & Development Allowances (RDAs), which provide an immediate 100% deduction for capital expenditure. This can improve cash flow significantly compared with other capital allowances, which give relief over much longer periods or not at all in the case of buildings for example.

Examples of how we've assisted our clients include



Initial assessments of the potential benefit to a company of preparing an RDEC claim



Identifying projects and activities that are eligible for RDEC, which can extend beyond 'core' R&D teams



Developing a claim preparation methodology that is robust and effective, minimising business disruption and providing a legacy for future periods



Ensuring that the RDEC figures are correctly represented in the company tax return and supporting computations



Advising on the 'real-time' collection of information during the accounting period



Facilitating discussions with HMRC to agree claims



Advising on how RDEC can be claimed by SMEs on certain expenditure that is excluded from the SME regime, for example subsidised costs or costs associated with work that is undertaken under contract.



Working with our international **Deloitte network** to ensure that opportunities for relief on overseas R&D activities are identified and claimed.



The Deloitte difference

In addition to assisting with R&D tax relief our market leading team can also assist with Patent Box benefits, accelerated tax depreciation on capital assets and the identification and securing of UK and EU grants. We understand the global dynamics that affect the funding of your investment and innovation strategy. The Gⁱ³ process ensures that we can efficiently acquire an understanding of your business and identify the grants and incentives opportunities that may apply.

Global reach

Gⁱ³ helps you see all the possibilities by identifying incentive opportunities available to your company worldwide.

Technology at the centre

Leverage technology for operational efficiency and to gain a clear vision of relevant opportunities.

Industry experience

Gⁱ³ practitioners globally know and understand your industry, your business language, and your technology language.

Lifecycle view

Each incentive must be considered in the context of the investment and innovation lifecycle to realise the full financial and commercial benefit.

Leveraging the ecosystem

Innovation does not happen in a vacuum. Connecting with the relevant government bodies and research institutes will propel your innovation capability. Deloitte helps you build winning relationships.

Thought leadership

Governments across the globe seek the insights of Deloitte people to help in the development and design of their own incentive policies.

Total perspective

Deloitte's broad range of specialised services are available to help you consider the impact of incentives on your wider tax, financial, and commercial activities so you can further enhance and accelerate your business opportunities.

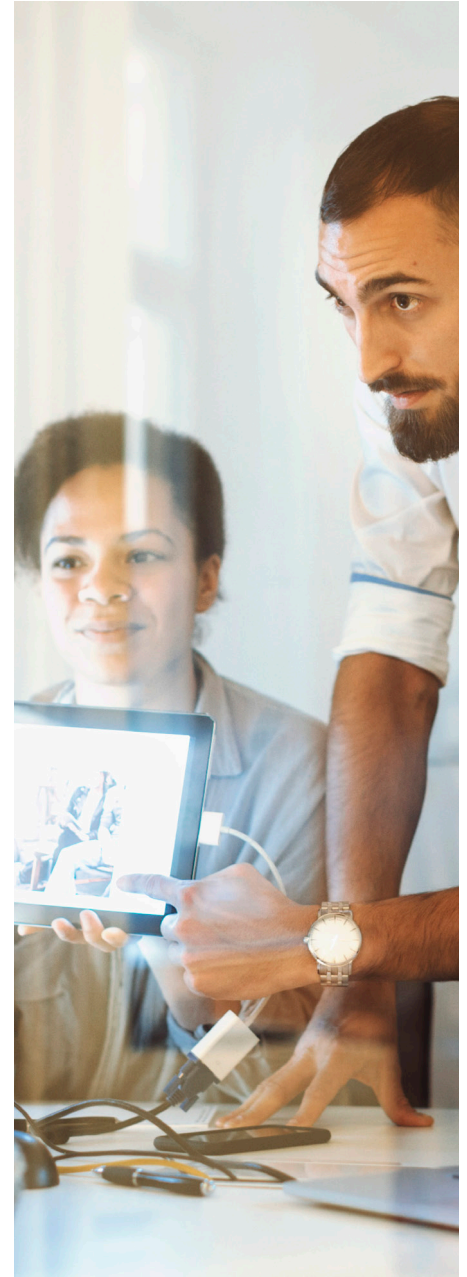


Why use Deloitte?

- **Industry leading team:** We were the first in industry to utilise a multi-disciplinary team and have done so since 2003. Our market-leading team has therefore included full time tax professionals, scientists and engineers for almost 15 years, ensuring that the people you work with truly understand your business.
- **Knowledge and expertise:** We have a deep understanding of the underlying technology, the associated accounting policies, the intricacies of the R&D regimes and its interaction with other aspects of the company's or group's tax position
- **Understanding your business and industry:** Our experts have a full time focus on R&D tax regimes and other investment and innovation incentives such as UK and EU grants, accelerated capital deductions and Patent Box
- **Bringing proactive insight:** we understand the importance of engaging more widely on the things that matter to you, and will provide practical solutions driven by our knowledge of your priorities and those of our other clients in the same sector.
- **Applying unique technology:** We continue to invest in and develop technology platforms that ensure that the processes of data collection and organisation, information analysis and engagement management are efficient, effective and convenient for you and your colleagues.
- **International expertise:** the size and breadth of our network of member firms provides you with access to qualified experts in Global R&D incentives as well as different areas of tax (e.g. VAT, international tax issues, employment taxes) to cover potential future expansions into new markets.
- **Becoming your trusted advisor:** we will invest to support you on your growth journey and, using our existing knowledge, we will further build our strong relationship with you to deliver real value.

www.deloitte.co.uk/gi3

We believe that business needs to innovate to grow, and by harnessing our experience and our passion for technology, we help our clients receive appropriate reward for their innovation activities.



Contacts



Kylie Gregge

Partner

+44 (0) 20 7007 0264

+44 (0) 7973 52117

keregge@deloitte.co.uk



Brian White

Partner

+44 (0) 118 322 2220

+44 (0) 7887 627499

bhwhite@deloitte.co.uk

Kathie Haunton

Partner

+44(0) 161 455 8996

+44(0) 7876 791363

khaunton@deloitte.co.uk

Deloitte.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2019 Deloitte LLP. All rights reserved.

Designed and produced by Deloitte CoRe Creative Services, Rzeszow. 199031