

Deloitte.



Look deeper. Seize the opportunity

R&D Tax Relief for Small and Medium sized Enterprises

Global Investment and Innovation Incentives (Gⁱ³)

Companies meeting the definition of a Small or Medium sized Enterprise (SME) can claim a tax benefit of up to a quarter of their qualifying development costs if they are tax paying, or a third of their qualifying development costs as a cash credit if they have current period losses.

For this purpose an SME is broadly a company that has fewer than 500 employees AND EITHER no more than €100m of turnover, OR no more than €86m of gross assets. Care is needed when considering these criteria however, as the rules require the inclusion of relevant figures for other associated entities and can be complex, particularly where there are Venture Capital or Private Equity shareholders or rights within the company's governing documentation that can impact relative voting rights.

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

How it works

The relief is claimed in the tax return for each financial accounting period and claims must be filed by the first anniversary of the filing date for the relevant tax return; this is generally two years from the end of the accounting period.

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 spend can be determined. Categories of qualifying expenditure include staff costs, payments made for the services of third party contractors or personnel supplied by other group companies, consumable items including materials used up in the R&D process, software licenses and utilities, amounts paid to the subjects of a clinical trial and payments to subcontractors.

The relief allows a company to claim an additional 130% tax deduction on qualifying expenditure related to eligible R&D activities. At the current corporate tax rate of 19% this equates to a 24.7% saving or, if the company has a tax loss in the year, the enhanced loss can be surrendered for a cash credit of up to 33.35% of the qualifying costs.

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 R&D tax relief.

Capital expenditure does not benefit from this R&D 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.

The availability of relief is restricted where a project is subsidised or otherwise funded, for example if the company is in receipt of a grant or is undertaking the work on a subcontract basis. In these circumstances, there is however an opportunity to claim the associated costs under the R&D Expenditure Credit regime.

Examples of where we've assisted our clients include



Determination of whether or not a company meets the criteria to claim under the SME regime



Initial assessments of the potential benefit to a company of preparing an R&D claim



Identifying projects and activities that are eligible for R&D tax relief, 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 R&D tax relief figures are correctly represented in the company tax return and supporting computations



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



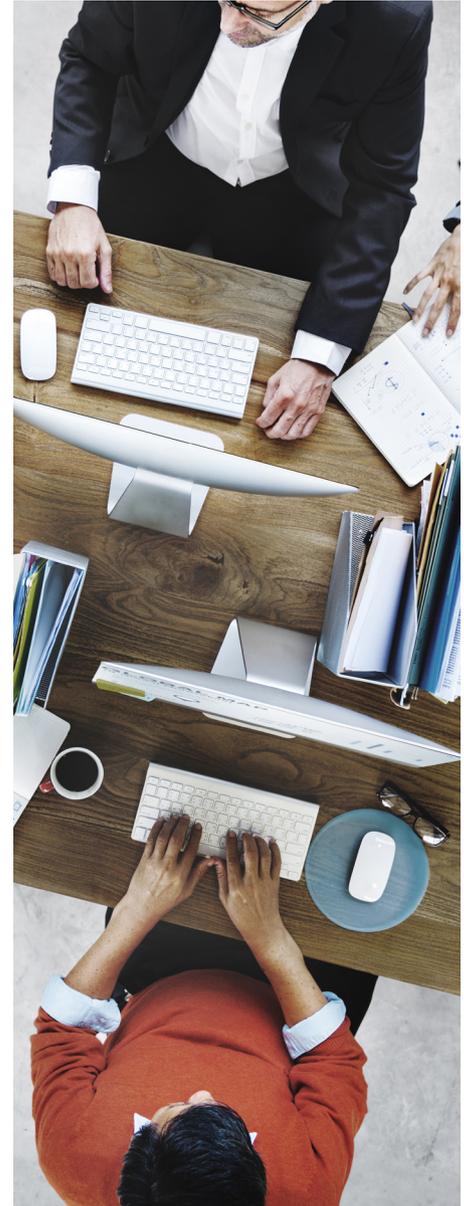
Facilitating discussions with HMRC to agree claims



Advising on the interaction of the relief with grant funding



Working with our international **Deloitte network** to make certain relief for any overseas R&D activity is 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.

Contact

To learn more about how you can benefit from this generous incentive, please contact Deloitte at gi3@deloitte.co.uk

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.





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 2 New Street Square, London EC4A 3BZ, 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 The Creative Studio at Deloitte, London. J12575/1