



Financial affairs

R&D incentives for financial services companies

Financial services providers, driven by industry requirements, are increasing their R&D spend. Investments include software and technology development to address strategic business imperatives, such as the urgent need to deploy sophisticated on-demand services for customers and comply with constantly changing regulatory requirements.

Whether claiming R&D tax relief (the super-deduction) or the new R&D expenditure credit (RDEC), our experience shows that very few companies are fully claiming these incentives because they wrongly believe that they are not undertaking any R&D. Eligible activities for tax purposes are actually much wider than many people appreciate and so opportunities are being lost.

Any development work where your personnel face considerable technological challenge, provided the solution is not available to, or readily deducible by, a competent professional working in the field, has the potential to qualify for the R&D incentives.

Qualifying revenue expenditure includes:

- salary costs (including employer's NI and pension contributions) of technologists and other employees directly and actively involved in the R&D work, and of those indirectly involved in eligible R&D projects;
- the cost of consumable items employed in the R&D process;
- 65% of contract staff costs;
- the cost of software licences, and power, fuel and water used in the R&D projects.

Under the R&D scheme for large companies, claims can be made for activities contracted to the claimant company, but not for R&D work which has been subcontracted to a corporate third party. R&D subcontracted to individuals, universities or other qualifying bodies, however, can be claimed.

In contrast, the R&D relief for small and medium sized enterprises (SME relief) allows claimants to include 65% of the costs of R&D subcontracted to corporate third parties. R&D performed by an SME which is funded, subsidised or contracted to the company, however, cannot be claimed under the SME regime. In these circumstances, the SME can generally make claims under the large company scheme for the excluded expenditure.

In addition, all companies can claim 100% accelerated capital allowances on capital expenditure incurred on carrying out R&D activities.

Understanding your industry

Activities that may be eligible for the relief include software development in a number of areas, from systems to process core transactions to front and back office reporting solutions. Development related to compliance with regulatory requirements in the United Kingdom and other countries, for example Solvency II, Basel III and many others, can also qualify. In many cases, new regulations have compelled financial institutions to develop sophisticated capabilities in customer relationship management, risk management, and other key areas and eligible R&D activity may also occur across these.

Examples of generic qualifying areas include:

- development of straight-through-processing systems;
- development of core business processing systems such as insurance underwriting, financial accounts, loans and mortgages;
- infrastructure improvement projects in areas of virtualisation, parallel processing, security etc.;
- difficult and challenging intranet and Internet software development where scale and complexity of design present serious technological challenges;
- enterprise architecture integration to supplant multiple disparate architectures and consolidate technology behind multiple business lines;

- next-generation architectures and new protocols for process logic, data design, and data logic intended to create a new approach for institutional infrastructure reuse;
- e-Business initiatives providing new ways to access legacy systems, including significant challenges presented by security issues;
- significant advances in calculation engines, artificial intelligence, predictive modelling, complex algorithms, and statistical analysis;
- technologically innovative data warehousing techniques, including next generation service-bus middleware architecture for business intelligence and management information reporting;
- software development intended to leverage CRM, involving predictive analytics for fraud detection and customer lifetime management;
- innovative storage and retrieval techniques to address prohibitive transactional volume limits within severe time constraints; and
- significant new functionality that may position the company as an industry leader.

IT systems developed in the financial services sector are known to have complex technology requirements – particularly when it comes to data security, large volume transaction processing, scalability, regulatory compliance etc. In these environments, helping HMRC’s R&D units to appreciate the R&D being undertaken often requires specialised input.

Unlike other sectors where it may be possible to show a physical piece of equipment such as a physical component, an engine or a drug formulation as the objective or output of R&D, financial services claims require specialist expertise of complicated and rapidly changing underlying technologies to demonstrate to HMRC how projects qualify for R&D.

The Deloitte touch

The Deloitte Innovation tax team has software experts with a combined total of over 75 years of performing R&D, having worked for banks and FS companies, and over 30 years of preparing R&D claims. We believe that this is unmatched in the industry. As the first and the most experienced software team, we have been through a decade long journey and our constant efforts in this sector have made it possible for many large and small organisations to claim a much wider set of activities and projects than previously thought possible.

Working with you

Our service model offers a range of bespoke solutions allowing us to work with you on a co-source basis wherever we can add most value. This may involve assisting you to manage your claims on HMRC enquiry, carrying out a review and providing advice on the suitability of systems and processes for claim preparation, a review of claims prepared in-house or the provision of training for your staff.

In addition, as a member firm of our global network, we can access in-country experience and the ability to advise across the large number of jurisdictions that now offer tax based R&D incentives.

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