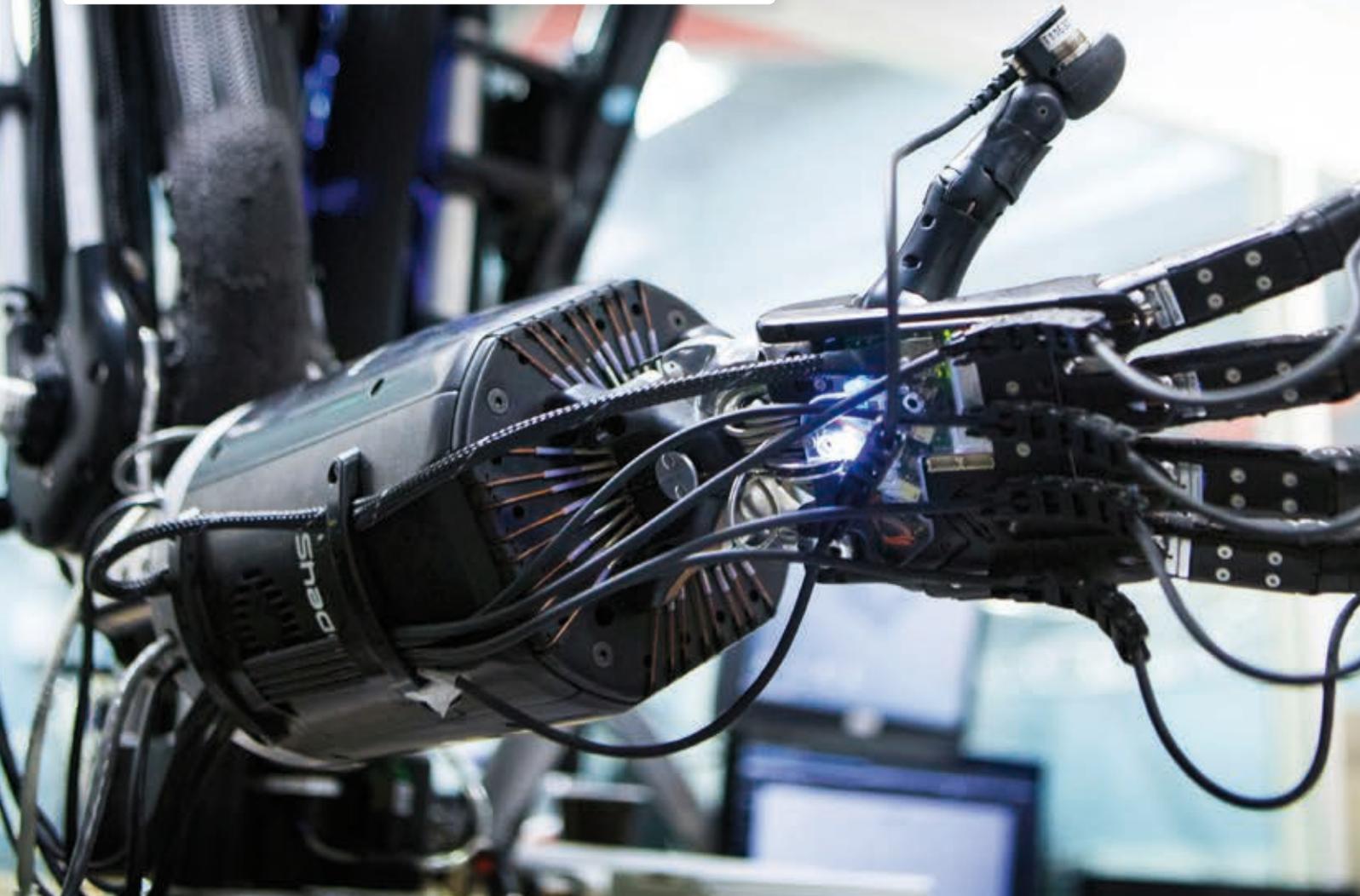


Deloitte.

Rewarding innovation
Research and Development
Expenditure Credit



Research and Development Expenditure Credit

Companies can now benefit from a taxable credit to offset against their R&D investment, giving them an 8.8% 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) – annual turnover not exceeding €100 million or a balance sheet not exceeding €86 million. The relief 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, 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 qualifying bodies including universities and NHS bodies.

Companies making an RDEC claim can record an 'Above the Line' taxable credit calculated as 11% of their qualifying R&D spend. A net 8.8% cash benefit is delivered to the bottom line after accounting for tax at the current rate of 20%. The credit can then be offset against existing tax liabilities or, if there are no tax liabilities, can be recovered as a cash payment from HMRC. The credit is generally recorded as a 'grant' or 'other' income in the profit & loss account, with a relevant reduction in corporation tax payable on the balance sheet.

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.

The historic 'super-deduction' R&D regime runs alongside the RDEC regime until 1 April 2016. Companies cannot claim both simultaneously, and electing into the RDEC regime is irrevocable.

For large companies, the super-deduction scheme provides an additional tax deduction calculated as 30% of the qualifying R&D expenditure, giving a current net benefit of 6% of the qualifying R&D spend. This benefit is reflected through the tax charge, so has a positive impact on the company's (or group's) effective tax rate – but the net benefit is less generous than the RDEC scheme and there is no benefit to profit before tax.

Why use Deloitte?

While making a claim for RDEC is a compliance matter, ensuring that you get the full benefit of the claim requires a deep understanding of the underlying technology, the associated accounting and the intricacies of the regime.

Identifying all the areas of eligibility can make a significant difference to the quantum of the benefit. The Deloitte Innovation tax practice was the first team to appoint technical resources, thereby recognising the importance of a multidisciplinary approach to R&D claims. Our team comprises people exclusively focused on R&D tax relief, including more than 20 engineers and scientists with R&D tax industry experience, across all sectors.

Our service model offers a range of bespoke solutions, allowing us to work with you on a fully outsourced or co-sourced basis, from the efficient use of R&D claims globally to ad-hoc support.

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Contacts

To learn more about how you can benefit from this generous incentive please contact your usual Deloitte contact or one of the specialists below:



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

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Designed and produced by The Creative Studio at Deloitte, London. 46460A