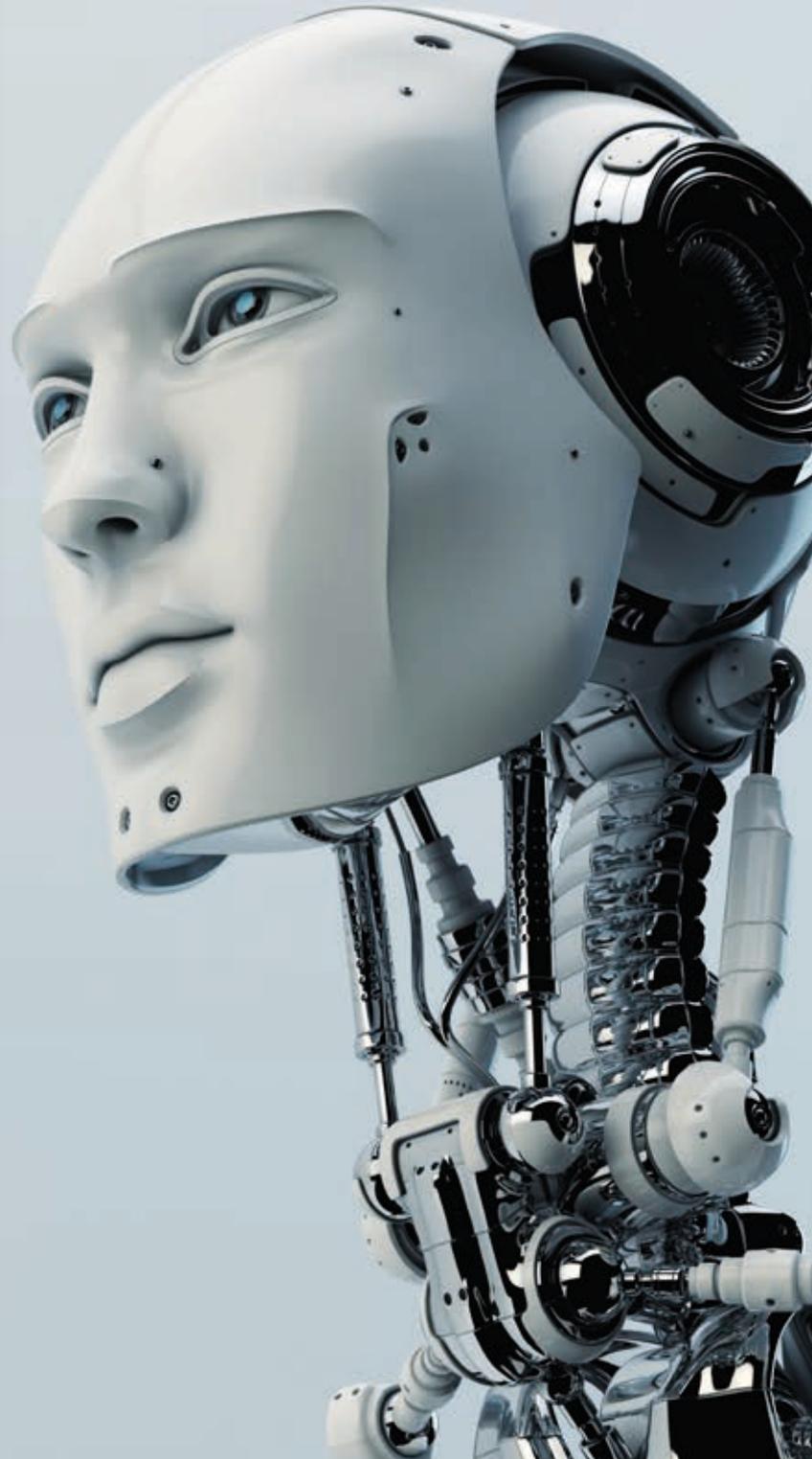


Deloitte.

Rewarding innovation
Research and
Development Tax
Relief for Small and
Medium Sized
Enterprises



Research and Development Tax Relief for Small and Medium Sized Enterprises

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 less 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.

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 20% this equates to a 26% 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.

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 or the large company super-deduction regime.

Why use Deloitte?

While making a claim for R&D Tax Relief 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 and all sizes of companies, from start-ups to multinationals.

Our team of dedicated specialists are agile in approach, partnering with SMEs to share our costing, technical and project management skills.

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 methodology that is robust and effective, minimising business disruption and providing a legacy for future periods;
- 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; and
- Working with our international network to make certain relief for any overseas R&D activity is claimed.

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 receive appropriate reward for their innovation activities.

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