



From small acorns R&D incentives for Small or Medium sized Entities

Does your company have to overcome technological challenges to develop new products, processes, materials or services? If so, are you confident that you are claiming your full entitlement to the generous R&D tax incentives available for this type of work?

The current guidelines on the meaning of R&D make it clear that activities that seek to achieve an advance in science or technology through the resolution of scientific or technological uncertainties are classed as R&D, provided that the solution is not available to, or readily deducible by, a competent professional working in the field. So, the good news is that any development work where the personnel face considerable technical challenges has the potential to qualify for the tax relief.

What is the benefit?

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; and
- cost of software licences, and power, fuel and water used in the R&D projects.

The legislation also allows 65% of the costs of R&D subcontracted to corporate third parties to be claimed. 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. There are currently two options when claiming under the large company scheme – the existing super-deduction scheme, or the new "above the line" (ATL) expenditure credit (applicable for qualifying expenditure incurred on or after 1 April 2013).

The two schemes will run in parallel until April 2016 when the super-deduction scheme will cease to operate. Prior to April 2016, a decision to opt into the ATL regime needs to be made by a company and is irrevocable once made.

Date	Period starting				
	Prior to 01 April 2012	01 April 2012	01 April 2013	01 April 2014	01 April 2015
Uplift	200%	225%	225%	225%	225%
Corporation tax rate (main rate tax payer)	26%	24%	23%	21%	20%
Main tax rate payer benefit	26%	30%	28.75%	26.25%	25%
Corporation tax rate (small profits tax payer)	20%	20%	20%	20%	20%
Small profits tax payer benefit	20%	25%	25%	25%	25%
Cash-back as percentage of qualifying spend	24.5%	24.75%	24.75%	24.75%	24.75%

Care is needed when considering the SME qualification criteria as the consequences of making an incorrect claim for SME relief can be severe. The rules require the inclusion of relevant figures for other entities that are associated with a potential SME and this analysis can be complex, particularly where Venture Capital companies or other outside investors are involved.

Why Deloitte?

Despite the generous benefits available, many companies have missed out on claiming because they were not aware of the extent that their activities were eligible, or that they were eligible at all. In some cases companies that made claims in the early years have been put off by difficulties in agreeing eligibility with their HMRC officer and/or interpreting the SME qualification criteria.

The SME scheme is restricted where projects are subsidised or otherwise funded, or where the relief has exceeded €7.5m over the life of the project. In these circumstances, there is an opportunity to claim under the large company scheme. Preparing claims under both schemes can be complex, particularly where the claims include third-party costs. The move to the "above the line" regime for large companies adds further points for consideration.

Deloitte's R&D Tax Services team has a history of awards and thought leadership. Our leading edge costing, technical and project management skills make Deloitte's R&D Tax Services team the clear choice to partner SMEs in optimising R&D claims.

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