



Developed to perform R&D incentives for software development activities

Information is increasingly at the heart of most successful organisations, but harnessing technology to deliver business value remains a challenge. Companies that invest in technology, whether developing applications, integrating systems or seeking operational efficiencies, may be able to claim the generous credits offered by the UK government to offset against their R&D expenditure.

Whether a company claims R&D tax relief (the super-deduction) or the new R&D expenditure credit (RDEC), our experience shows that few companies are taking full advantage of the benefits available to them. The most common reason is that they fail to identify the R&D they perform – there is a breadth of technical activity that may be eligible for relief – and thus the opportunity to help fund costly IT investment is 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;
- 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

The development of new software products and systems normally involves the resolution of technological challenges and even when a product has been released, the fast-moving pace of technology standards can often be a key driver for further enhancement.

The definitions of R&D are widely drawn and in our experience companies undertake more qualifying activities than they think. Sample qualifying activities include:

- development of new technologies, solutions, architectures, bespoke integration designs, protocols, specialised components and packages;
- making noticeable improvements to existing systems. Improvements might be in the areas of performance, security, scalability and availability;
- redesigning existing systems using fundamentally different technologies, e.g. redesigning a legacy monolithic system into a modular/modern service oriented architecture using Java/.NET technologies or re-architecting systems to enable shared access via SAAS/Cloud services;
- developing digital applications that may include software such as mobile communications software for delivering multimedia entertainment, video or Internet games that are increasingly interactive and with more realistic graphics, or multimedia communications software in support of digital, high-definition, or interactive entertainment;

- developing new or improved data processing solutions such as those required in malware detection, security and data warehouse systems which must analyse and interpret large quantities of diverse data;
- providing better risk management solutions and analytics to support financial services through the use of simulations and the design and incorporation of complex mathematical models;
- developing flexible, high-quality, and scalable engines to manage and automate complex business rules and work-flow;
- developing message-oriented middleware and information brokers capable of handling asynchronous communications with near real-time or synchronous results;
- systems integration work that involves:
 - the unexpected behaviour of individual components;
 - inadequate or incomplete information about components; and
 - unexpected behaviour between or amongst the components.

An effective claim requires a comprehensive and authoritative review of activities and associated costs and a detailed understanding of technological issues. Involving technical staff that come from an IT/Computer Science background, who understand the nature of the activities undertaken and can evaluate this in the context of the HMRC guidance can optimise claims in this field.

The internal mechanics of how software works can require specialised input to help HMRC's R&D units appreciate how projects qualify for R&D relief, as unlike other sectors, it is not possible to show a physical piece of equipment such as an engine or drug formulation as the objective or output.

The Deloitte touch

The Deloitte Innovation tax team has software experts with a combined total of over 75 years of performing R&D 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. We positively influence the outcome of software R&D claims for our clients.

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.

For further information contact:

Brian White
0118 322 2220
bhwhite@deloitte.co.uk

Carmen Aquerreta
020 7007 3928
caquerreta@deloitte.co.uk

Kylie Gregge
020 7007 0264
kgregge@deloitte.co.uk

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