



Financial affairs

R&D incentives for traders, quants and developers

Global financial markets are facing increased regulatory scrutiny, more sophisticated risk management and a need to develop a more agile operating environment. In ultra-competitive financial markets, competitive advantage is often achieved through technological advance, with performance measured in microseconds and traders operating at the cusp of technical achievement. Supporting activities throughout the trade lifecycle and across multiple asset classes is resulting in increased investment in, and reliance on, technology platforms.

Our experience shows that very few companies are fully claiming the benefits they are entitled to because they wrongly believe that they are not undertaking any R&D. Whether claiming R&D tax relief (the super-deduction) or the new R&D expenditure credit (RDEC), eligible activities 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 enhanced tax relief.

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; and
- 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 across front-, mid- and back-office functions to value securities, execute trades and manage risk. These range from real-time systems to analyse market information, the development of technical frameworks for proprietary trading strategies, models and algorithms, to the integration of order management and trading with execution services across multiple venues and post-trade processing. New regulations have compelled financial institutions to develop sophisticated capabilities across key areas such as improved, more timely reporting platforms and enhanced risk management, and eligible R&D activity may also occur across these.

It is recognised that financial trading is often challenged by performance, security, data confidentiality and regulatory compliance issues, and also that the Industry is very competitive, characterised by secrecy, frequently resulting in significant technological uncertainty as competitors' implementation details are not publicly known. To overcome this, companies in this sector are increasing their R&D spend, investing in:

- implementing increasingly complex risk, analytical functions and valuation engines;

- integrating multiple data models and interfaces from internal and external systems, transforming legacy environments;
- delivering real-time 'straight through processing', integration with clearing & client management systems;
- orchestrating and co-ordinating workflow and transaction activities; tracking business processes internally and externally with partners;
- enhanced capabilities such as a data warehouse to manage information resources;
- complying with enhanced UK and EU regulatory requirements and compliance, and protecting data confidentiality and integrity;
- improving operational efficiency, adopting virtualisation, streamlining network communications and enhancing resilience and failover.

Examples of generic qualifying areas include:

- development of 'fast path' systems to support low latency trading, and integrating co-locational and advanced connectivity technologies;
- implementing increasingly complex risk and analytical functions and valuation engines;
- development of core transaction processing and back office business processing systems to support accurate, more detailed and timely reporting of information;
- integrating multiple data models and interfaces from internal and external systems, transforming legacy environments;
- delivering real-time 'straight through processing', integration with clearing & client management systems;
- orchestrating and co-ordinating workflow and transaction activities; tracking business processes internally and externally with partners.

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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.

The team is integrated within our Financial Service tax and consulting teams, and by sharing knowledge and practice across our multi-disciplinary project teams we can efficiently secure the RDEC you're entitled to which can help fund part of your technology programs encompassing traders, quants and developers.

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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