

Research & Development (R&D) Tax Relief

Key highlights

To discuss any issues or opportunities in relation to Research & Development (R&D), email enquiries@om.uk or speak to your usual Old Mill contact.

What is R&D?

R&D tax credits have been designed to encourage more UK businesses to invest in science and technology innovation. If you can demonstrate you have sought to overcome a scientific or technological uncertainty, then there's a good chance you've conducted qualifying R&D.

It's also worth remembering that even if your R&D didn't go to plan or you didn't get the outcome you intended, the claim remains valid and HMRC can still reward you for your efforts.

Examples

The result of the R&D can have tangible consequences, such as a new or improved product or process, or intangible consequences, such as new knowledge.

Some examples of the above are...

- Investigating and using new materials.
- Adapting and repurposing traditional materials, or using a combination of materials in unique ways.
- Adapting machinery to use in a different way than its intended purpose.
- Developing and applying new energy-saving techniques.
- Developing safer methods and practices.
- Yield improvements through the creation of new pesticides, chemicals or fertilisers.
- Developing drugs for disease management.
- Creation of farming techniques using less space or resources.
- Development of disease-resistant crops.
- New soil treatments or processes.
- Replicating an existing food or drink product but making it dairy free, vegan etc.
- Research and testing undertaken in order to extend shelf life.
- Creating products without the use of preservatives and additives that are still suitable for consumption after x amount of days.
- Trialling fat/protein contents to ensure the ingredients do not separate or negatively impact one another.

Qualifying expenditure

Staffing costs

Staffing costs of directors or employees directly and actively engaged in R&D can qualify. This includes salaries, employers' National Insurance and employers' pension contributions but excludes dividends.



Consumables

You can claim for consumable items used up in R&D. This includes materials and utilities.



Subcontracted R&D and Externally Provided Workers ('EPW's')

If you subcontract out an element of your R&D project, 65% of subcontractor/EPW costs can qualify if the company qualifies as an Small and Medium Enterprises 'SME'.

65%

Companies qualifying under the RDEC scheme can only claim for subcontractor costs in specific circumstances, but can claim for EPW's.

Software

Software costs used directly in R&D activities can qualify.



Non – qualifying expenditure

Non-qualifying expenditure includes:

- Capital expenditure.
- The cost of patenting or trademarking.
- Rent or rates.



Research & Development Tax Relief

Recent developments and upcoming changes

Proposed changes from 01 April 2023

Additional deduction – SMEs

Additional deduction of 130% cut to 86%.



For a company paying tax at 25% and spending £100,000 on R&D, the tax relief is cut from £24,700 to £21,500.

Tax credit – SMEs

The tax credit for SMEs is reduced from 14.5% to 10%.



For a company spending £100,000 on R&D, the tax credit is cut from £33,350 to £18,600.

R&D Expenditure Credit (RDEC)

The RDEC for large companies is increasing from 13% to 20%.



For a company spending £100,000 on R&D, the RDEC increases from £10,530 to £15,000.

Subcontracted R&D & Externally Provided Workers (EPW's)

Subcontracted expenditure rules are tightening.



Companies thinking of subcontracting R&D abroad should speak to their R&D adviser.

New qualifying expenditure

Two new categories of expenditure qualifying for R&D relief to be introduced – costs of data licences & cloud computing services.



Companies will be able to claim for expenditure incurred on data licences and cloud computing used in the R&D.

Addition of 'pure maths' to the definition of R&D

'Pure maths' will be brought into the definition of R&D.



Companies making advances in pure maths will be able to claim under the R&D scheme.

Going Digital



R&D claims will have to be made digitally, alongside stricter reporting requirements.



A pre-notification within six months of the year end will need to be completed unless certain conditions are met, together with more detail being required in the submission of the claim.

Other topical updates

Subsidised R&D Expenditure – background

Grants and other subsidies received for any expenditure associated with the R&D projects can affect whether the R&D claim falls under the SME scheme or RDEC.



A trend has emerged in recent years where HMRC are challenging SME claims for customer-led R&D on the basis that the associated R&D expenditure is subsidised by customers, and therefore the claim should be made under the less generous RDEC scheme.

Customer-led R&D

Customer-led R&D refers to circumstances where there is an up-front contract with a customer relating to a specific R&D project.



Companies undertaking or planning to undertake customer-led R&D should discuss the increased risk and any risk mitigation opportunities with their R&D adviser.

