

Manchester R & D Unit

Philip Metcalf & Lee Wilson

Working Together (Manchester)

17 October 2013

What's it all about?

- Additional relief for companies undertaking qualifying Research & Development
- Reduces the Tax Bill for companies in profit
- Loss making SMEs can “sell” losses back to HMRC for a cash payment
- Dedicated staff available in a Specialist Unit to help companies with advice
- Ensure that the right people get the right support, maximum entitlement
- Supporting innovation to boost the UK economy

How much is it worth?

- When you spend on R & D, the costs reduce your taxable income as with any other expense
- Our scheme gives an extra deduction on top of those costs – up to doubling the effective tax deduction (225% from 1 April 2012, for SMEs)
- If the company is a SME making a loss, can “sell” some or all of the losses back to HMRC at a rate of 12.5% (11% from 1 April 2012)
- Our definition of a SME is more generous than the normal EU definition, so larger companies can benefit under the higher SME scheme rates
- The Large scheme gives an extra 30% deduction (or 130% in total)
- Since 01 April 2012 No minimum spend

2011 -12 Summary

- * 9,875 SME Claims, 2,260 Large Scheme.
- * £420m support claimed by SME's & £780m through Large Scheme.
- * £2.2 billion of R&D expenditure attracted relief under SME scheme & £9.7 billion via large scheme.
- * North West accounts for 10% (£60m) of all claims.
- * Sectors: Business Services & Manufacturing.

So what is R&D for tax purposes?

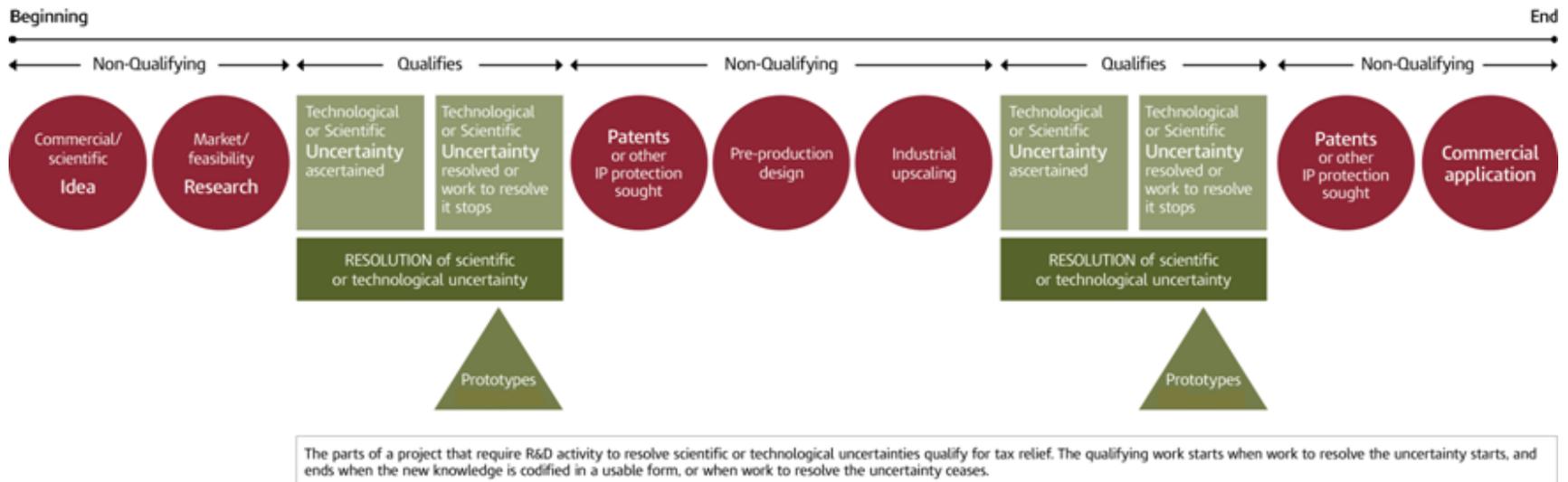
- The DTI guidelines explain what is meant by R&D for a variety of tax purposes.
- Tax Definition may differ from commercial definition.
- R&D takes place when a project seeks to achieve an advance in science or technology.
- Activities which directly contribute to achieving the advance through the resolution of scientific or technological uncertainty are R&D
- A scientific or technological uncertainty exists when knowledge or technological feasibility is not readily deducible by a competent professional in the field.
- Must be an advance in knowledge or capability in the field – not just the company's own state of knowledge or capability.

Qualifying R&D expenditure

Is expenditure on:

- Staffing costs (CIRD83000/83200)
- Consumable items (82300/82400)
- Software (CIRD82500)
- Externally provided workers (Relief on 65%) (CIRD84000/84100)
- Subcontracted R&D (Relief on 65%) (CIRD84200/84250)
- Contributions to independent research (Large Scheme) (CIRD82200)

Possible commercial project time line – defining R&D for tax purposes



Not everything Qualifies

- Just adding functionality is not enough
- Improvement, optimisations or fine tuning – which do not materially advance science or technology – are not R & D
- Science excludes Social Sciences, Humanities and Economics
- Grants can reduce claim – but some relief may still be possible – ASK!
- **However** – we feel that businesses, particularly those in the manufacturing industry, undervalue themselves and miss out on a valuable relief.

And sometimes it's a little of both...

- Sometimes companies treat the whole of product development as R & D
- Developing a new product may include one or a number of advances – each one can be a qualifying project
- Can only claim for the effort in achieving those advances – not the whole of the costs of making the product
- Available to give advice
- When you've prepared one claim, subsequent claims are simpler – don't be discouraged – generous relief and well worth claiming.

Making your claim

- Claim with a Return – either with original Return, or as an amendment to a Return. Relief given in CT computation.
- We like to see a description of the R & D undertaken and a breakdown of the costs to substantiate the claim
- For companies with numerous projects, happy to discuss ways of minimising work for the company to prepare (and for us to review)
- 2 year time limit
- If making a “cashback” claim, our aim is to deal with within **28 days** of receipt

Other related issues

- Above the Line Credit

- A new way of providing relief for Large Companies and may result in their being allowed to surrender relief for a cash payment, if loss making (something currently only SMEs can do) – also applies to SME companies claiming under Large Scheme

- Patent Box

- Simply put - the Patent Box allows companies to elect to apply a 10 percent rate of corporation tax from 1 April 2013 to all profits attributable to qualifying patents, whether paid separately as royalties or embedded in the sales price of products.
- <http://www.hmrc.gov.uk/manuals/cirdmanual/CIRD200000.htm>

Where to find more help

The HMRC website has an R & D Section with useful links to more detailed information at <http://www.hmrc.gov.uk/ct/forms-rates/claims/randd.htm>

Our address

Manchester R & D Unit
Large & Complex Businesses S0717
PO Box 3900
GLASGOW
G70 6AA

Telephone: 03000 510 190

Fax: 0161 288 6180

E-mail: randd.manchester@hmrc.gsi.gov.uk