Research and development tax relief

**Consumer Business Sectors**

Many companies have participated in the research and development (R&D) tax incentive scheme and were awarded R&D tax credits for their R&D efforts.

Have you made claims for R&D tax credits? Are you certain you are receiving the R&D benefits you are entitled to?

As global economic activity shifts towards innovation and knowledge, the UK’s future prosperity depends on its ability to create and expand scientific and technical expertise. The R&D Tax relief scheme is a key part of the Government’s strategy to raise overall levels of R&D and improve long term productivity growth rates in the UK.

How does the R&D tax claim work?

**Revenue expenditure**

► From 1 April 2013, there are two R&D revenue schemes running concurrently. The ATL credit will become compulsory from 1 April 2016.

► The R&D super-deduction scheme gives large companies an additional 30% deduction in the calculation of its taxable income for R&D revenue expenditure. For a 23% taxpayer, this typically results in an 6.9% benefit.

► The ATL credit will be paid at a headline rate of 10%. For a 23% taxpayer, this typically results in an 7.7% benefit. Some companies may be eligible for a payable tax credit subject to a PAYE/NIC cap.

► The ATL credit increases visibility of R&D expenditure. The ATL credit can offset the debit in the profit and loss account, useful in budgeting decisions.

**Capital expenditure**

► The R&D Allowances (RDA) scheme provides an accelerated 100% reduction for qualifying R&D capital expenditure

► Available in addition to the R&D revenue expenditure relief described above

**What is R&D?**

The latest guidance on the meaning of R&D for tax purposes states that R&D takes place when a project seeks to achieve an *advance* in science or technology through the resolution of scientific or technological *uncertainty*.

Our experience shows that the definition of R&D for tax purposes extends beyond the typical R&D or New Product Development (NPD) departments and can include several overlooked activities that are embedded in the wider operations of your business.
For example, any investigative trial work undertaken by your engineers, process technologist or product technicians, which is over and above routine troubleshooting or adaptation that was undertaken to address technical issues may potentially be eligible R&D. Potentially eligible expenditure can include direct and indirect qualifying activities.

Examples of areas which may contain potentially eligible R&D:

- Design, construction, testing and trialling of new pilot plants or prototypes
- Changes to recipe formulations that are not straightforward and require extensive trialling and testing. Scaling up of laboratory trials to commercial batches of new products
- Introduction of new or alternative raw materials into existing processes as a result of change in supplier or legislative requirements that was technically challenging
- Integration of new technology to an existing process that facilitates manufacturing improvements
- Improvements to existing processes that are designed to increase production efficiencies, reduce waste or decrease costs
- Adaptation of new technologies from another industry to develop new or improved devices, processes or products that was not straightforward

EY Research and Development Tax Services

The key to unlocking and maximising your R&D tax benefit is being able to successfully identify the eligible R&D activities amongst the wider operational activities that take place in your company. Identification of eligible projects outside the R&D or NPD Centre is not straightforward; each project must be assessed on the technical merits against the qualifying criteria. The key to unlocking your R&D tax benefit is an in-depth understanding of:

- The scientific and technological issues involved in your sector
- The operational activities involved in development and production of your product, from R&D, commercial manufacturing, consumer testing and regulatory approval
- The typical technical problems encountered with existing manufacturing and packaging processes
- The business processes in your organisation
- The tax rules and guidance on the meaning of R&D for tax purposes and how this applies to your industry sector
- The ability to identify and capture all eligible R&D activities throughout your organisation

EY’s multi-disciplinary R&D tax team are committed in helping UK companies receive the R&D benefits to which they are entitled. Our experience, proven methodology and business-focused approach will assist you in claiming your R&D benefits.

EY’s industry consultants are skilled engineers, PhD scientists and IT professionals who understand the technical issues involved with R&D tax claims. They have the skills and knowledge required to help identify eligible R&D activities, not only in specific R&D departments, but also in the wider business areas of the organisation.

EY’s experienced tax professionals understand the relevant tax legislation and will help you to capture and claim eligible R&D expenditure.

EY’s skilled costing consultants have the ability to extract and manipulate large costing data from accounting systems and set up practical costing approaches to building your R&D tax claim.

We work closely with HM Revenue & Customs (HMRC) and understand their approach to making R&D tax claims. This allows us to reach agreement with the HMRC on current R&D claims and agree processes required for future claims.

Our R&D methodology and project management tools allow us to build robust R&D tax claims with minimal disruption to your operations.