UK Research and Development tax relief

Many companies participate in the research and development (R&D) tax incentive scheme and are 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 to which you are entitled?

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 a 6.9% benefit. This scheme will run until 31 March 2016.

► 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 with nil corporation tax liability 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.

► Qualifying expenditure categories available to the R&D super-deduction and the ATL scheme are predominantly staffing costs, externally provided worker costs, consumables, software, utilities and payments to qualifying bodies.

Capital expenditure

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

► Expenditure can attract relief either under the RDA scheme or qualify for R&D revenue relief. An RDA claim and R&D revenue relief can not be claimed on the same expenditure.
What is R&D?

R&D takes place when a project seeks to achieve an advance in science or technology through the resolution of scientific or technological uncertainty.

The definition of R&D for tax purposes extends beyond the traditional understanding of R&D and is broader than companies realise. Our experiences show that non-obvious activities occurring in the wider business areas, such as manufacturing operations and assembly processes, testing and trialling, quality assurance, regulatory certification and business services can attract eligibility for relief.

Potentially eligible expenditure can include both direct and indirect qualifying activities.

IP and jurisdictional requirements

There is no requirement that the company receiving the R&D incentive must own the intellectual property arising from the R&D expenditure.

There is no requirement that the R&D be performed within the UK in order for the expenditure to be eligible for the incentives available.

Administrative procedures

The claim must be filed within two years of the end of the accounting period to which it relates. Companies may therefore file amended claims up to the first anniversary of the filing deadline for the corporate tax return.

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 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 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 is 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 its approach to making R&D tax claims. This allows us to reach agreement with 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.