Pharmaceutical and Health Science Industry 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.

It is widely recognised that R&D occurs in several areas in this industry such as the R&D Centre and Phase I to III Clinical Trials. Our experience shows that the definition of R&D for tax purposes extends beyond these typical areas and can include non-obvious R&D activities that are embedded in the wider commercial operations of your business. 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 prototypes and pilot plants
- Development of new technologies to support improvements to existing processes that are designed to increase efficiencies or decrease costs
- Replacement of new or alternative materials, reagents or excipients into existing processes as a result of change in supplier that was technically challenging to introduce
- Scaling up manufacturing and packaging trials or prototypes to full scale production batches
- Development of new or improved analytical tools with better sensitivity/range/accuracy
- Potential Phase III clinical trials and some generic drug development that involves technical uncertainty and is challenging

**EY Research and Development Tax Services**

The key to unlocking and making the most of 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. To do so requires a comprehensive understanding of:

- The scientific and technological issues involved in your sector
- The ability to identify and capture all eligible R&D activities throughout your organisation
- The business processes in your organisation
- The tax legislation and guidance on the meaning of R&D and how these are specifically applied to the pharmaceutical and health science sector

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 process chemical engineers and PhD scientists 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.

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

We have skilled data analysts who 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.