

Key Points

The R&D tax regime offers valuable incentives to companies that carry out innovative work in science and technology. Despite the common misconception, it is not just available to high-tech, pharmaceutical, or R&D-centric businesses but can be claimed by a broad range of companies provided they are seeking to make an advancement in their relevant field or industry.

The main aspects of the R&D regime in the UK together with what expenditure is eligible and the tax reliefs that are available are set out below.

However, some of the key points to note are:

- the enhanced relief for revenue expenditure on R&D is only available to trading companies
- there are two R&D schemes, one for companies of all sizes, the other only for loss-making R&D intensive SMEs
- qualifying R&D is not just restricted to projects which result in new products or processes but can also include improvements, changes, or modifications to an existing one
- R&D projects which are ultimately unsuccessful can still qualify for relief provided the other conditions are met
- it is helpful when systems are in place to try and accurately capture R&D costs and maximise the company's overall claim
- relief can typically be claimed for up to two years following the company's accounting period, though there may be earlier notification requirements for accounting periods starting on or after 1 April 2023

It is important to note that R&D projects can take many forms. While this can include new processes or new products, it can also arise from 'appreciable improvements' to an existing process, material, product or service. Additionally, R&D is not always successful. However, even if a project is ultimately unsuccessful it could still qualify for R&D tax relief if it sought a solution which was not evident at the outset.

As a rough guide, while answering 'yes' to any of these does not guarantee a claim, it might suggest further investigation is warranted:

- have you done something to differentiate yourself within your industry or sector?
- have you taken on something particularly challenging?
- have you taken on risk in trying to achieve something new or substantially improved?
- have you invested time and effort into making efficiency-gains?
- do you operate in a market that is specialised, niche or highly regulated?
- do you employ highly skilled or qualified technical staff?

Whatever size or sector, if your company is taking a risk by attempting to resolve scientific or technological uncertainties, then it may be carrying out qualifying activity. We can work with you to identify qualifying projects and discuss what costs may be eligible for relief.

What is R&D?

Broadly, R&D for tax purposes takes place when a project 'seeks to achieve an advance in science or technology' and helps overcome an uncertainty that is not easily solved by a professional in that particular field.

What tax relief is available?

There are two R&D regimes currently available for trading companies that incur expenditure on qualifying R&D. From April 2024 the main scheme is the Research and Development Expenditure Credit (RDEC). The other scheme (the SME intensive scheme) is available only to SMEs which make a loss and meet an R&D intensity condition. Eligible companies can choose to use either scheme, but the reliefs under the SME intensive scheme are more generous. To qualify for either scheme, certain criteria must be met. We have included some information on the schemes below, including the current rates of relief, but we would be happy to talk you through them in more detail.

Before April 2024, the RDEC was mainly for large companies and the default for SMEs was what is now the SME intensive scheme.

RDEC scheme

A company of any size can make a claim under the RDEC scheme. The RDEC entitles the company to a tax credit of 20% of the qualifying R&D spend. The credit is taxable which means the net benefit after tax is typically worth 15% of the qualifying R&D expenditure.

SME intensive scheme

Broadly, a claim can be made under the SME intensive scheme if the company:

- is an SME
- makes a trading loss
- meets the R&D intensity condition for the current or previous period

A company is an SME if, broadly, it has:

- fewer than 500 employees, and
- either turnover of no more than €100m, or
- gross assets of no more than €86m

A company meets the R&D intensity condition if its R&D expenditure is at least 30% of its total expenditure for accounting periods commencing on or after 1 April 2024. Prior to this date the expenditure must be at least 40%.

Under the SME intensive scheme, relief is available as:

- an enhanced deduction that reduces taxable profits (or increases trading losses), or
- a repayable tax credit

An eligible SME can claim an additional deduction of 86% of the relevant R&D costs incurred (this is in addition to the normal profit and loss deduction). This will increase the amount of the company's trading loss, which can be relieved in the usual ways.

Alternatively, it is possible to surrender the loss for a repayable tax credit. The company will receive a repayable credit of up to 26.97% of qualifying expenditure.

What expenditure qualifies for R&D relief?

Expenditure on qualifying R&D may qualify for R&D tax relief if it falls within the following specific categories:

- staffing costs
- externally provided workers
- software or consumable items
- data licences and cloud computing services
- relevant payments to the subjects of clinical trials
- work subcontracted out by the company
- work subcontracted into the company by an ineligible company or a person not chargeable to UK tax

Different rules applied to subcontracted R&D before April 2024.

We can assist the company in capturing eligible costs and maximising those included in a valid claim.

When can a claim be made?

The time limit for a claim is two years from the end of the company's accounting period. For example, if the accounting period was the year to 31 December 2024, a claim could be made up to 31 December 2026.

However, for accounting periods commencing on or after 1 April 2023 who have not previously made a claim for R&D they must submit a claim notification form within six months of their accounting period for any R&D claim to be valid (there is an exception for companies which have previously made a valid R&D claim within three years prior to the end of that six-month notification period). If this 6 month deadline is missed this will preclude the company from making any R&D claim.

It is therefore important to start discussions around the availability of R&D relief from the outset of any relevant project.

Additional Information Form

From 8 August 2023 all companies must lodge an additional information form (AIF) with HMRC prior to the submission of their corporation tax return (CT600). If the AIF is not lodged before the CT600 HMRC will reject the claim. The attached guidance includes the detailed questions that must be answered on the AIF to make a valid R&D claim.

Further information and contacts

If you think your company might qualify under the R&D scheme or would like to know more information on the possible availability of R&D relief, please get in touch with us at tax@thomsoncooper.com to discuss all the above areas in relation to your business.