

## Research and Development Tax Incentives

The government realises the importance of research and development (R&D) in the UK and have created tax incentives to encourage companies to undertake R&D activities. R&D tax relief can help fund the technological advances you need to keep your company competitive, by reducing your tax bill or providing you with cash.

There are two schemes, the large company scheme and the small and medium sized company (SME) scheme. This factsheet provides information on both schemes, helps you decide if you could qualify and tells you what to do next if you do.

### What are the tax incentives?

R&D tax relief, often called R&D tax credits, reduces your taxable profits by allowing an additional deduction for certain expenditure on R&D. This means you pay less corporation tax. The precise amount of the relief will depend upon in a Company's exact circumstances but it may be possible to reduce your corporation tax bill by up to 15% of your eligible R&D costs.

If the R&D tax credit creates or increases a capital loss it may be possible for SMEs to surrender their R&D tax losses for cash of up to 24% of the eligible R&D spend. The cash back can be up to a maximum of the company's PAYE and NIC liabilities for the period.

You may also be able to claim 100% first year capital allowances for your capital R&D expenditure.

### Does what I'm doing qualify as R&D for tax purposes?

To be entitled to the R&D tax credits you must be within the definition of R&D set out in special DTI guidelines. In summary:

- You must be trying to do something that involves you having to develop scientific or technological knowledge that is not commonly available. Science does not include work in the arts, humanities and social sciences. An example of a technological advance could include appreciably improving a product or process.
- As part of the work you need to be trying to overcome scientific or technological challenges or uncertainties. Are you trying to determine whether something is scientifically possible or technically feasible? Or, are you trying to see how something can be achieved in practice?
- The advance or knowledge should not be readily available or deducible by a competent professional working in the field.

This is generally one of the most difficult areas for companies to judge and therefore one where you may need to seek advice.

### If I think the R&D is eligible what should I do next?

There are two schemes, the large company scheme and the SME scheme. The SME scheme gives a taxpayer a higher tax saving and permits the surrender of R&D losses for cash. It is therefore more attractive than the large company scheme.

In order to qualify for the SME Scheme the following conditions must be met:

- You must be an SME, a company with fewer than 250 employees, and either annual turnover not exceeding euro 50m or a balance sheet total than euro 43m.
- If the company is a member of a group, either UK or foreign, the group will also need to be small or medium-sized.
- Less than 25% of your capital or voting rights must be owned by the enterprise that falls outside the definition of an SME. (Although there are some exemptions for institutional investors.)
- Any intellectual property arising from the R&D project must belong to the company. The R&D must be carried out on your own account.
- No notified State aid can have been received in respect of the project. These can include grants from the DTI, Regional Development Funds and other government support, including EU initiatives.

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- Another party cannot have met the expenditure claimed, directly or indirectly.

Other eligible expenditure on a valid R&D project will qualify under the large company scheme. A claim is therefore possible in some surprising circumstances.

- A company may have undertaken an R&D project for which considerable State funding has been received. Additional funding may still be achieved by claiming R&D tax relief under the large company scheme.
- An SME may carry out R&D as a sub-contractor for a large customer, for which it is fully paid. This does not preclude the company from claiming R&D tax relief under the large company scheme.

### **Are the tax incentives changing?**

The budget on 21 March 2007 announced enhancements to the R&D tax incentives planned for 2008. The potential reduction in the tax bill will increase for companies qualifying under both the SME and large company schemes.

### **How we can help**

R&D tax incentives help companies fund R&D. Yet evidence suggests that many taxpayers either under-claim or are not claiming the relief at all.

At James Cowper we have dedicated tax professionals who have considerable experience of helping companies interpret the complex rules. We can prepare claims in a form acceptable to the Revenue and negotiate these on behalf of the taxpayer. If you would like to discuss this further then please contact us.

For further information about James Cowper and how we may be able to assist you, visit [www.jamescowper.co.uk](http://www.jamescowper.co.uk)

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