

Research & Development Tax Credits

R&D tax credits are a company tax relief that can either reduce a company's corporate tax liability or, for some small or medium sized companies (SMEs), provide a sizeable cash sum. As such they can represent an alternative, and often vital, source of funding.

The system works by giving an extra tax deduction against taxable profits on qualifying R&D expenditure of up to 125% from April 2012 (subject to EU approval).

For SMEs, where the extra deduction creates or increases a loss the SME may be able to surrender the loss and receive a cash repayment. Alternatively these losses can be carried forward to future years and used against taxable profits when the commercial exploitation of the technology commences and the business starts to generate profits.

There are specific rules for larger companies.

HMRC are eager for companies to claim and have set up specialist R&D units to handle claims. The James Cowper tax team speaks with these specialists on a regular basis to ensure our clients are getting the best possible cash advantages.

Qualifying costs can include:

Employment costs: salary, employers NICs and pension contributions

Consumables: heat, light, power, chemicals, prototypes etc

Software

Sub-contractor costs

Qualifying indirect activities: for example, administration functions and training.

In the recent past James Cowper has claimed R&D tax credits on £100 million of our clients' expenditure. We know how to help.



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Accountants & Business Advisers

TAX & TECHNOLOGY BUSINESSES 2012/13



Technology Companies The Tax Agenda

In the early stages of development of a technology business, tax is not always seen as important. This is largely understandable at a time when concentration on commercial factors is so crucial. Nevertheless taking control of tax matters may add considerable value to the business and reduce the risks of unpleasant surprises.

Why is tax important?

- At a time when cash flow is crucial, businesses do not want to incur tax costs which are greater than the resources concerned. R&D tax credits can give a positive cash injection.
- Some tax planning opportunities are only available at certain times in a Company's development. It is important that such opportunities are not missed.
- Getting the structure right from the beginning can make a company more attractive to potential investors.
- It is not uncommon for tax issues to delay planned trade sales or listings.

Why James Cowper?

At James Cowper we advise many technology companies and their shareholders on tax matters. We pride ourselves on providing straightforward, cost-effective and timely advice. We understand the technology sector and leverage our experience to help our clients.

The Enterprise Investment Scheme (EIS)

- EIS is designed to help smaller higher-risk unlisted trading companies, such as those operating in the technology start-up market, raise finance.
- EIS can be used to attract Business Angels even if they also become Directors.
- The scheme offers a range of tax reliefs to investors who purchase new ordinary shares in those companies, including income tax relief of up to 30% on the amount invested up to a maximum of £1million from April 2012 (subject to EU approval) and a capital gains tax free disposal if the shares held under an EIS scheme are held for 3 years.
- There are a number of restrictions on the type of trade the company can operate to qualify for the scheme, but companies operating in the technology industry will usually qualify.
- The qualifying rules are complex and advice should be sought from a qualified adviser like James Cowper when planning investment under the EIS scheme.

Seed Enterprise Investment Scheme (SEIS)

- Introduced from 6 April 2012, SEIS is a valuable tax relief for investment of up to £150,000 in early stage companies.
- Key features are 50% income tax relief on amounts subscribed for qualifying shares, and capital gains tax exemption for 2012/13 gains that are invested in Seed EIS shares.

Entrepreneurs' relief

Entrepreneurs' relief reduces the rate of capital gains tax paid by taxpayers on qualifying disposals to 10% (from a maximum rate of 28%) for certain disposals of shareholdings for employees and officers. The rules are complicated, but in summary you need to have at least 5% of the shares and the votes for one year prior to disposal. The lifetime allowance of £10 million means the relief is potentially worth £1.8 million. It is crucial to plan to maximise the possibility of claiming the relief. In the 2012 Budget it was announced Entrepreneurs' Relief will be extended to some shares acquired under EMI Share Option Plans.

Patent box

- Commencing in April 2013 is a new taxation regime called Patent Box with particular relevance for technology businesses.
- Being phased in over 5 years it will offer a 10% corporation tax rate on profits generated from patent or similarly protected innovations.
- It will be essential that companies and their activities are correctly structured to take advantage of this opportunity.

