

The logo for Kiloby Williams, featuring the company name in a white serif font. The word 'KILSBY' is positioned above 'WILLIAMS'. A thin yellow horizontal line is located directly beneath the word 'WILLIAMS'.

KILSBY  
WILLIAMS

Chartered Accountants & Tax Professionals

A Guide to Research & Development Tax Relief for SME Companies

# Table of Contents

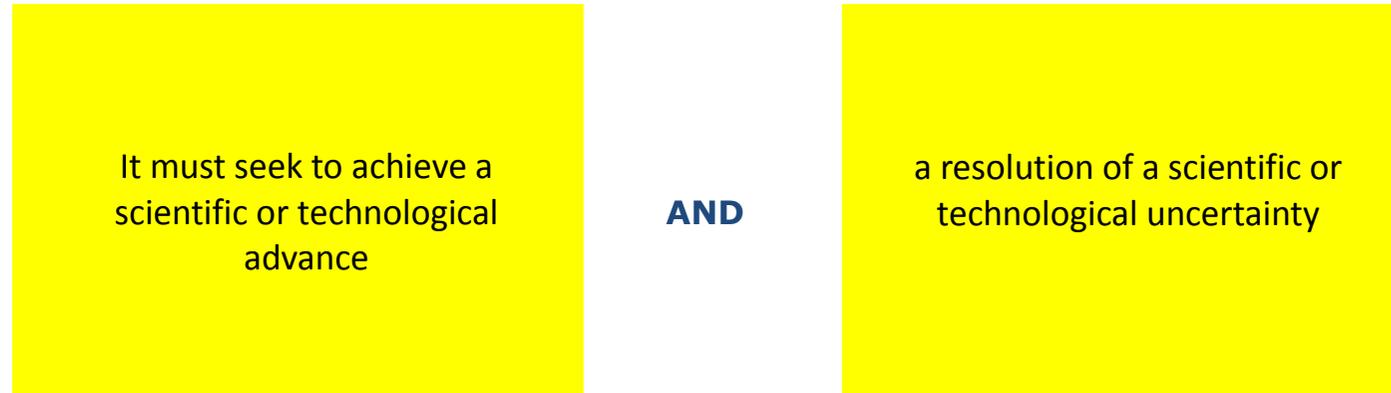
- Background to the relief
- What are the benefits for small companies
- Meaning of R&D for tax purposes
- Categories of qualifying costs
- Other considerations
- Preparing and supporting the claim

## What are the benefits for small companies?

- Enhanced 230% tax deduction for unfunded eligible R&D expenditure under the SME regime
- This provides additional tax relief of **£2,470** per £10,000 of qualifying expenditure if paying corporation tax at the current rate of 19%.
- An alternative cash credit is available for loss making SMEs of **14.5%**, this is currently worth **£3,335** per £10,000 of qualifying expenditure.
- Accelerated 100% tax deductions for capital spend
- Two year time limit for submission of R&D claims

# The meaning of R&D for tax purposes

- For a project to be eligible as R&D for tax purposes, two key criteria must be met:

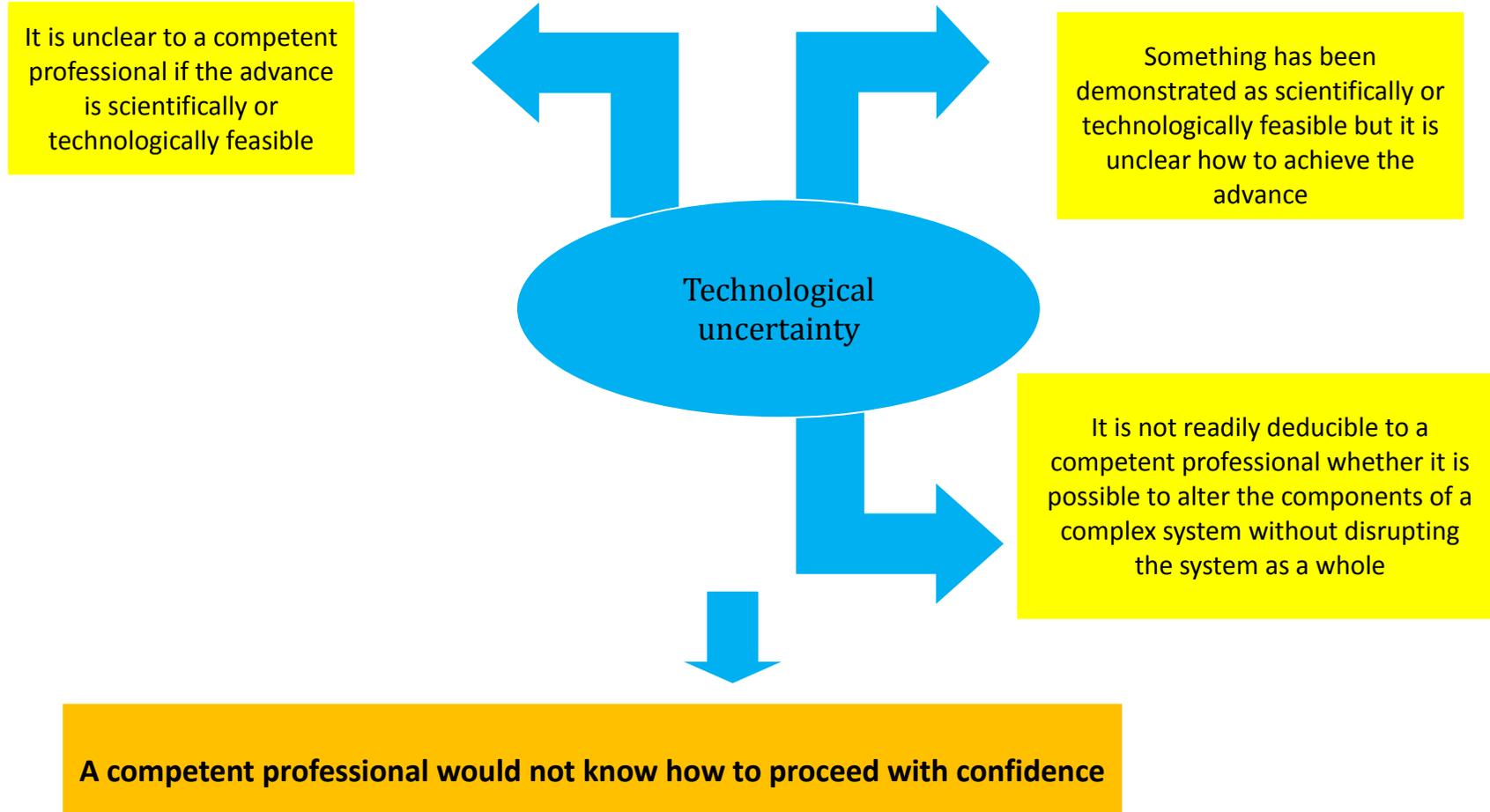


- The R&D project starts when work to resolve the technological uncertainty is identified and ends when the uncertainty is resolved or the project is terminated
- An R&D project does not have to be successful to qualify
- Decision on whether there is technological uncertainty is determined by the judgement of a competent professional

# Scientific or technological advance

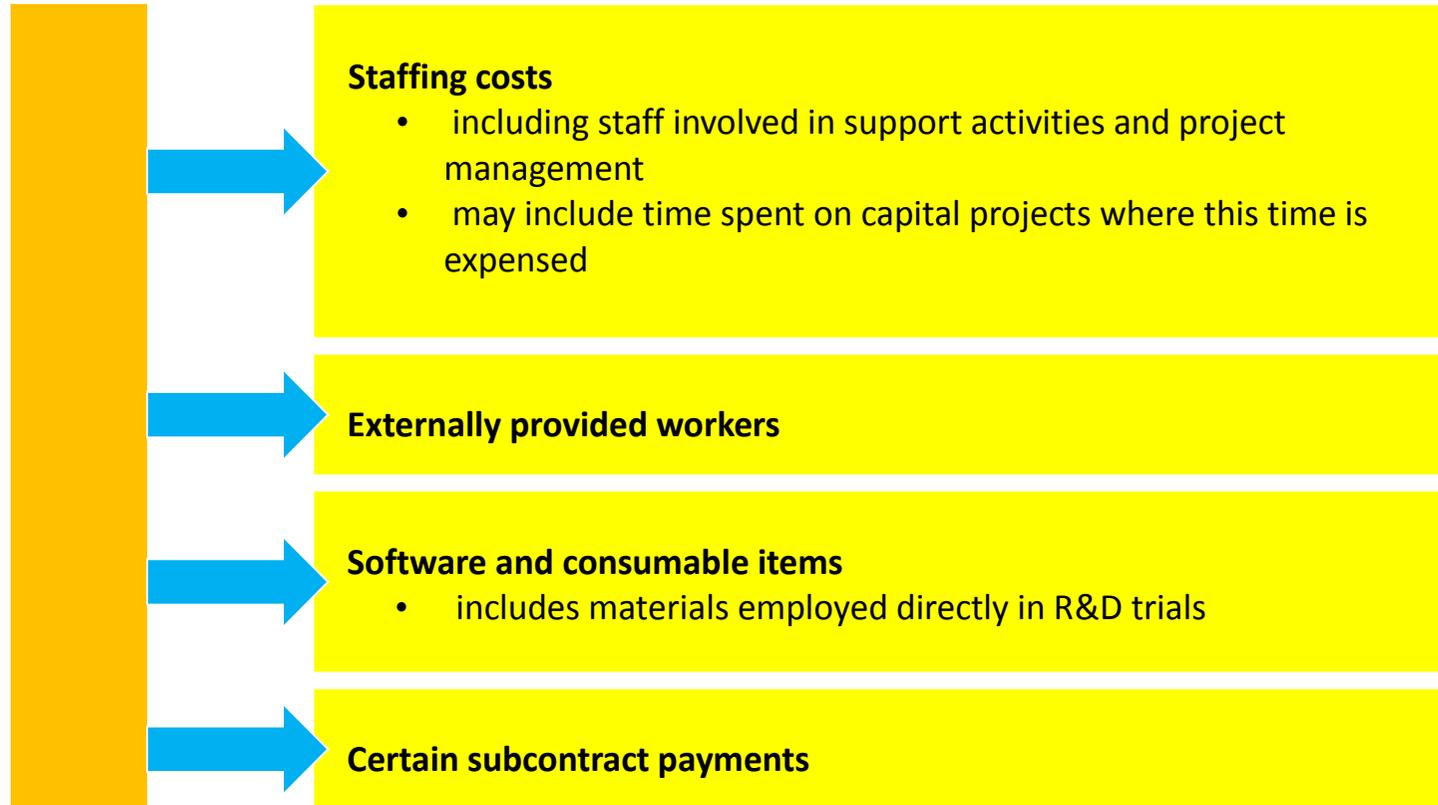
- An investigation that leads to increased scientific or technological knowledge
- A project to create a new product or process
- An appreciable improvement to an existing product or process
- Improvements based on a completely new application of technology
- Improvements based on the adaptation of technology into another area
- Advance through systems engineering with the integration of two or more elements that have never previously operated together

# Scientific or technological uncertainty



# Categories of qualifying expenditure

- Broadly 'qualifying expenditure' includes the following:-



## Staffing costs

- Wages, salaries, bonuses and other cash payments made to employees and directors
- Also employer's NI and pension contributions
- Must be employees of claimant company
- Include proportion of costs that relate to time spent 'directly and actively' engaged in R&D activity

## Externally provided workers

- Payments to third parties for the provision of personnel to work with the company's teams
- Personnel must be working under the supervision, direction or control of the company
- Claim 65% of payments made
- Reduce if only working directly and actively on R&D for part of the time
- If third party is a connected company, claim on lower of:
  - Amount paid, or
  - Staff costs incurred by third party

## Software & consumable items

- Materials and equipment must be 'directly employed' in the R&D process
- Consumable or transformable materials, e.g.
  - Prototypes
  - Output from production trials
  - Formulations/ingredients used in tests
  - Water, fuel and power
  - Materials, chemicals or components
- Software (specialist & general) employed directly in the R&D – can apportion if not fully used in R&D

## Subcontract costs

- Transfer of responsibilities with respect to a particular task to a third party e.g. testing
- Under the SME scheme, all subcontracted costs can be claimed regardless of whether the claiming company owns the IP resulting from the R&D
- How much to claim ...

Unconnected	Connected
<p data-bbox="327 836 786 890">Claim 65% of the payment made to the subcontractor</p> <p data-bbox="282 944 831 999"><i>Can elect to be treated as if connected (2 year time limit)</i></p>	<p data-bbox="1128 823 1312 850">Claim lower of:</p> <p data-bbox="943 903 1503 1011">The payment that it makes to the subcontractor and the cost to the subcontractor</p>

## Other considerations

- The activities must relate to 'Relevant R&D'
- The costs must be deductible in calculating taxable profits
- The costs must not be considered capital for tax purposes, but may have been capitalised in the company's accounts
- The company does not need to own the resultant IP
- The company must be a going concern

# Preparing and supporting a claim

The key to success is demonstrating to the Revenue officer that:

- There are clear reasons why the project is eligible without confusing or oversimplifying the facts:
  - When did the eligible project start and end
  - Was this project genuinely seeking a technological advance
  - What were the technological uncertainties
  - What activities were undertaken to resolve technological uncertainties during the period being claimed and why they were needed to resolve the technological uncertainties
- The right people have been involved with the preparation of the claim
- The guidelines have been understood and applied appropriately
- Only “qualifying” costs have been included in the claim