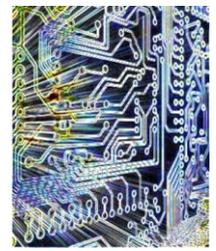


R&D Tax Credits

Tax relief for SME's engaged in Research & Development

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Introduction

R&D tax reliefs were established to help drive innovation in the UK. They offer companies that carry out R&D activities the opportunity to reduce their tax bill.

All companies, large and small, can claim if they undertake qualifying work. SMEs can benefit even if they are loss making – they can surrender the R&D tax losses for cash. This is of considerable assistance to start-ups in need of cash to fund their R&D.

Benefits

R&D tax relief can improve your company's cash flow by reducing its tax liability and, in some cases, by obtaining an additional tax repayment (R&D tax credit). R&D tax relief is only available for companies and there are two different R&D tax relief schemes depending on the size of your company. The scheme outlined here is available for small and medium-sized companies (SMEs) – those with either annual turnover of €100m or less, or a balance sheet figure of €86m or less, and no more than 500 employees. From 1 April 2012, the tax relief on allowable R&D costs is 225 per cent - that is, for each £100 of qualifying costs, your company or organisation could have the income on which Corporation Tax is paid reduced by an additional £125 on top of the £100 spent.

Who can claim?

R&D claims are commonly made by businesses in the engineering, pharmaceutical, healthcare, software development, energy-saving and biotechnology fields.

However, a common misconception is that the scheme is just for companies with R&D departments and men in white coats. The fact is that any company that spends money trying to improve a product or service through a technological advance, using qualified staff and appropriate project controls, and where there's doubt about the project's success, is likely to be eligible.

Ask yourself.....“Is my business under competitive pressure and are we constantly trying to improve our product or service using science or technology?”

What are the qualifying criteria for R&D tax relief?

What constitutes R&D is wide-ranging, but includes the development or improvement of a product or process. However there must be a technological advancement and an attempt to resolve a technological uncertainty.

A *technological advancement* must be an extension to the existing body of technological achievement or make an appreciable improvement to an existing process, device, product or service. It doesn't have to be a large advance; it just has to be shown to be defined and above the industry standard.

A *technological uncertainty* relates to taking a technologically feasible idea and turning it into a cost effective and reproducible process, device, product or service.

The *project content* must be technical i.e. science- or technology-based, but note that a project does not have to actually achieve its aims to qualify for R&D tax relief.

The quickest way to determine eligibility is to speak to a specialist R&D tax credit consultant* rather than an accountant or tax adviser.

How is it calculated?

What you spent on qualifying R&D is used to calculate your rebate or relief. These currently include:

- Staffing costs including wages, employers' Class 1 NIC, employers' pension contributions, and any other direct staffing costs
- Software and consumable items relating to development work
- Water, fuel and power relating to development work
- Externally provided workers doing R&D work
- Prototypes and costs relating to manufacturing trials of R&D Projects
- Clinical trial volunteers on R&D Projects
- Subcontracted R&D work (qualifying at 65% of cost only).
- You can claim for failed R&D projects.

Your R&D Tax Relief claim is based on Qualifying Expenditure. Whether you have made a profit or a loss, you will be entitled to a cash rebate for previous years and relief for the current year.

**Please contact J4intech to discuss your situation*