



Indie Dev' Guide

Research & Development Tax Relief Claim (for SMEs)

Introduction

For Small and Medium Enterprises in the UK, Research and Development (R&D) tax relief enables companies that incur costs in developing new products, processes or services to obtain additional deductions against their taxable profits. Where this additional deduction creates losses, the company is entitled to surrender the losses for a repayable tax credit.

This scheme is designed to encourage innovation and increase spending on R&D activities by UK companies.

Eligibility

In order to determine whether the company will qualify for an R&D claim, your answers to the following questions, must fall within the definition of qualifying R&D:

- What is the project?
- What is the scientific or technological advance?
- What were the scientific or technological uncertainties involved in the project?
- How and when were the uncertainties overcome?
- Why was the knowledge being sought not readily deducible by a competent professional?
- Cost of R&D to company?

It is recommended that you take specialist advice to confirm whether work you undertake qualifies for R&D relief.

Rates of relief

Over the last few years, the rates of relief for R&D have changed, mainly increasing the value of the relief for companies that qualify.

From 1 April 2015, the tax relief on allowable R&D costs was increased to 230%. This means that for every £100 of qualifying costs, your company could reduce your taxable profits by a further £130 on top of the £100 you actually spent.

If your company has an allowable trading loss, this can be increased by 130% of the qualifying R&D costs - so that's £130 for each £100 spent.

This loss can be carried forward and offset against future profits of the same trade, potentially saving corporation tax at 20%, based on the current corporation tax rate. It could also be carried back and offset against the previous year's corporation tax liability, if there was one.

Alternatively, you can choose to convert the losses into a repayable tax credit, which from 1 April 2015 is at a rate of 14.5%. This may be preferred as it offers an instant cash injection, whereas although carrying losses forward could obtain greater tax relief (at 20%), there is no guarantee the company will be profitable in the short term, and the cash may be more important.

Disclaimer: This leaflet is intended for guidance purposes only and we recommend that you take specific advice before taking any action or relying on these notes. Plus Accounting is a trading name of Feist Hedgethorpe Limited. Registered to carry out Audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales.