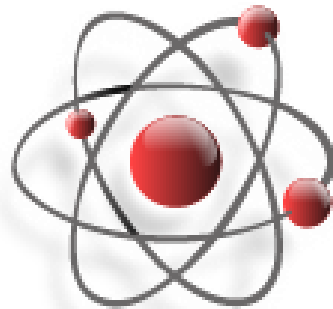


Research and Development
(R&D) Tax Relief
MIA presentation by
Alan Bamford HMRC Incentives &
Reliefs Unit
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This Presentation Will Cover

- What reliefs are available within the Small and Medium size Enterprises (SME) scheme.
- What is qualifying R&D?
- Qualifying R&D expenditure
- The “whole car” concept in Motorsports
- Making a claim
- Recent changes
- R&D Enhanced Credits (RDEC)

SME Tax Relief

- **Qualifying revenue expenditure is enhanced at a particular rate**
- **The rate depends upon the date on which the expenditure was incurred:**
 - **1 Apr 2011 to 31 Mar 2012 = 100%**
 - **1 Apr 2012 to 31 Mar 2015 = 125%**
 - **From 1 Apr 2015 = 130%**
- **Enhancement is then deducted in the Corporation Tax computation**

Payable Tax Credit

- For claimant companies that have made losses in the period
- Surrender the lesser of:
 - the enhanced R&D expenditure, and
 - the unrelieved trading loss of the period

Payable Tax Credit (cont.)

- The rate of the payable tax credit depends upon the date on which the expenditure was incurred:
 - 1 Apr 2011 to 31 Mar 2012 = 12.5%
 - 1 Apr 2012 to 31 Mar 2014 = 11%
 - From 1 Apr 2014 = 14.5%
- From 1 April 2012 there is no PAYE cap or a Deminimus level of R&D expenditure.

Research & Development Allowance (RDA)

- The RDA gives relief for capital expenditure incurred on R&D directly undertaken by a trader
- Allowances are only due if the R&D is related to the trade carried on
- The rate of allowance is 100%

What is qualifying R&D?

- Starting point – activities that fall to be accounted for as R&D under GAAP (SSAP 13)
- The accountancy definition is then modified for tax purposes by the BIS guidelines

The definition of R&D

- A **project** that seeks to achieve an **advance** in science or technology (not arts or humanities) through the resolution of scientific or technological uncertainties, that are not readily deducible by a competent professional.

What is an advance?

- Must represent an advance in the **overall knowledge or capability** in a field of science or technology (competent professional)
- not a company's own state of knowledge or capability alone
- Can be an appreciable improvement to an existing process, product etc e.g. Motorsport
- Reward for success and for R&D failures.

Qualifying R&D Activities

- The activities that **directly contribute** to achieving the advance through the resolution of the uncertainties
- Certain **qualifying indirect activities (QIA's)** which form part of a qualifying project but do not in themselves directly contribute to the resolution of scientific or technological uncertainty

Qualifying Revenue Expenditure

- **Staffing costs** – includes salary costs, bonuses, employers' NIC, pension contributions, but not benefits in kind. The % time on relevant R&D attracts relief.
- **Consumable items** – includes revenue expenditure on consumable or transformable materials, includes **water, fuel and power**. Includes any expenditure on **software** directly employed in R&D activities
- **Subcontract costs** – where a discrete piece of the project is given to a third party, e.g. testing. Generally 65 % of the costs attract relief
- **Externally provided workers** – an external worker brought in to work alongside the claimant company's staff. Generally 65 % of the costs attract relief.
- **QIA's**-project specific, not too remote

Expenditure not met by the SME

- If the expenditure is subsidised (or if it is sub-contracted to the SME by a large company) relief is still available, through the large company rules.
- New scheme from 1 April 2013 and this will be mandatory from 1 April 2016.
- Now allows for a tax credit to be claimed. I will cover this later.

The “Whole car” concept

- Motorsports and the development of motor vehicles are no different from other sectors
- Concept of the whole car qualifying for R & D throughout its lifetime is not appropriate
- Claims must be based on individual projects in accordance with the legislation
- The number of projects may vary for example what part of the vehicle is already ‘fixed’

Continued....

- Section 13 of the BIS Guidelines defines what is technological uncertainty but is refined by Section 14 which states that “ improvements, optimisations and fine-tuning which do not materially affect the underlying science or technology do not constitute work to resolve scientific or technological uncertainty”.
- Preparing the car for each race to achieve its optimum performance is considered to be covered by Section 14 above.
- Similarly, stripping down the car after each race is not related to a specific project and as a result is non-qualifying.

Making a Claim

- Identify the R&D project
- Determine the start and end dates of the R&D project
- Establish the qualifying activities within the project
- Quantify the expenditure relating to those activities.
- Claim must be made in a CT return. Time limits - APE 31/03/13 file by 31/03/15.

Recent changes

- Tax Credit rate is 14.5% from 1 April 2014.
- Enhancement rate to increase to 130% from 1 April 2015
- Consumables – Autumn statement 2014 clarifies that you cannot claim for any R&D materials that are included in a product that is sold.
- RDEC Scheme for Large Company claims.

R&D Enhanced Credit

- For APE's ending on or after 1 April 2013
- For claims made under Large Scheme.
- Available for loss makers & those in Profit.
- 10% credit paid on qualifying expenditure.
- This includes Grant funded projects.
- Treat the credit as income received in accounts.
- Rate increased to 11% from 1 April 2015.
- Guidance at CIR89700

Where to get help

- HMRC website - www.gov.uk - HMRC
- BIS website
- Specialist units
 - See page 80350 of the CIRDC (Corporate Intangible Research and Development) Manual
 - located on the HMRC Website (part of www.gov.uk)
- R&D Webinar - See R&D page of HMRC website