

# Research and Development Tax Relief

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SME Scheme

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# What is R&D Tax Relief?

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- A means to gain funding for your R&D through the tax system.
- Introduced in 2000 for SMEs (RDEC Scheme introduced in 2013).
- Two schemes:
  - R&D Tax Relief for SMEs
  - R&D Expenditure Credit (mainly for Large Companies)
- Enables eligible companies to gain either
  - A reduction in the amount of corporation tax paid
  - A tax credit (i.e. cash)
- A company is eligible if undertaking “R&D for tax purposes”

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*A project that seeks to achieve an advancement in a field of science or technology, through the resolution of technological uncertainty, will therefore be R&D.*



# What are qualifying “R&D” activities?

## Advances in science or technology

- New product, process, service, material or device.
- Appreciable improvement to an existing product, process, service, material or device.
- New knowledge or capability within a field of science or technology.
- Replication of existing effects in a new or appreciably improved way.

## Scientific or technological uncertainties

- Uncertain of the *scientific possibility*.
- Uncertain of the *technological feasibility*.
- Uncertain how to *achieve in practice*.
- System uncertainty.

# What are qualifying “R&D” activities?

## Things to consider in determining eligibility of a project:

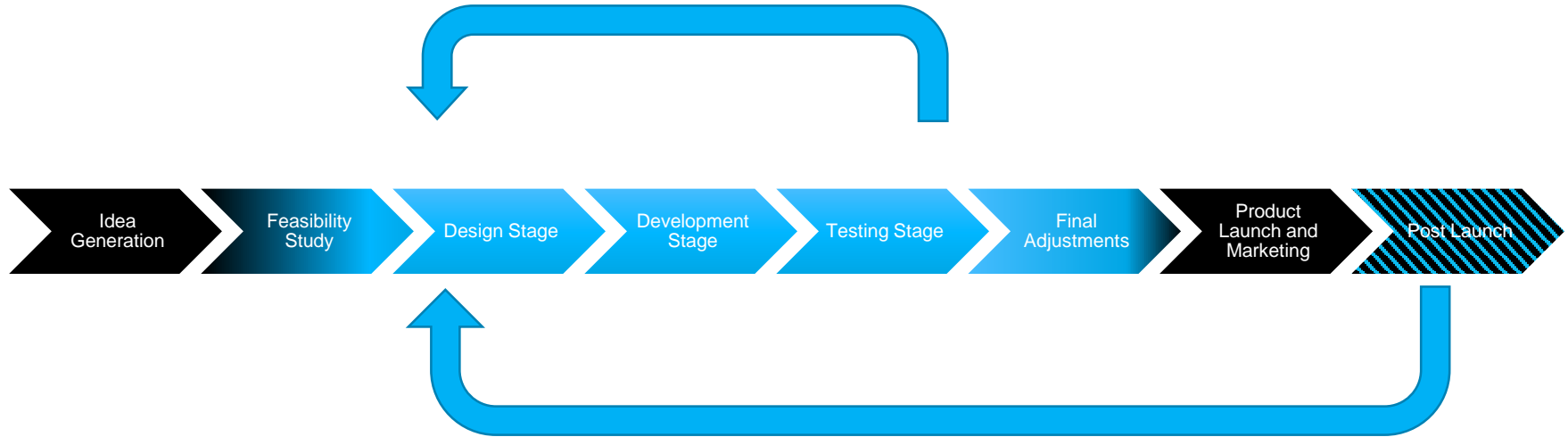
- Was the knowledge of how to achieve the advance readily available?
- Advancing something through the use of technology is not the same as advancing that field of technology.
- Was the resolution of that uncertainty readily deducible to a competent professional?

# Project Boundaries



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*R&D for tax purposes starts and stops where the uncertainty starts and stops.*



# What costs qualify for R&D Tax Relief?

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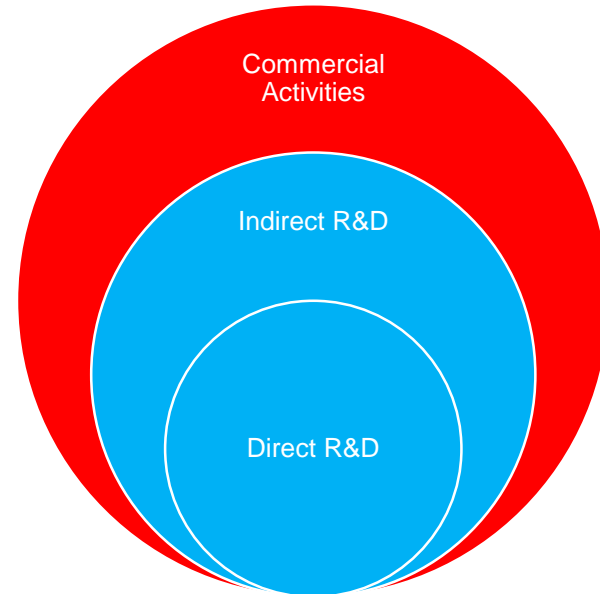
## For SMEs there are five main cost categories:

- Staffing Costs
- Externally Provided Workers (@ 65%)
- Subcontracted Activities (@ 65%)
- Software Costs
- Consumables

# What costs qualify for R&D Tax Relief?

## Direct & In-Direct R&D

- “Direct R&D” refers to activities which actively contribute to the resolution of uncertainty.
- “Indirect R&D” refers to activities which form part of the R&D project but do not directly contribute towards the resolution of uncertainty:
  - Certain indirect R&D can be considered “Qualifying Indirect Activities”
- In general; marketing, commercial, market research and user acceptance testing do not qualify.



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