

R&D Tax Relief



ela8 limited
October 2017

*build*offsite





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What is R&D Tax Relief?

“A government incentive scheme aimed at encouraging UK companies to invest in Research and Development, delivered through the taxation system”

A brief history...

- **R&D Tax Relief** introduced in 2000 for SMEs
- Large company scheme added in 2001, **R&D Expenditure Credit (RDEC)** introduced in 2013
- **R&D Allowances (RDAs)** available on capital spend

What's it worth?

SME R&D Tax Relief

- If profitable, up to **26%** of the qualifying R&D costs
- Losses may be exchangeable for up to **33.35%** of the qualifying R&D costs

Large Company R&D Expenditure Credit (RDEC)

- A taxable above-the-line cash payment of 11% of the qualifying R&D costs (currently **8.9%** after corporation tax)

Capital Allowances

- **Immediate relief** for capital expenditure incurred for carrying out R&D and for providing facilities for carrying out R&D – significant timing difference on allowable tax deductions

How is a claim made?

Identify eligible activities – gather supporting evidence

Collect data and quantify costs that relate to eligible activities

Document the eligible activities and associated costs in a formal report

What counts as R&D?

ADVANCE

Technical steps must create at least an appreciable advance or improvement to the art

UNCERTAINTY

In pursuing the advance there must be the resolution of technological uncertainty

DIFFICULTY

A competent professional in the field must not be able to readily deduce the solution to the problem

What activity is eligible?

What sort of **activities** does your company undertake?

Are you developing or improving products, tools, services, materials or processes?

Are you conducting experiments with new equipment or with production techniques?

Are you trying to make something more efficient, scale it up, reduce its cost or improve its impact on the environment ?

Are you facing scientific or technological challenges in trying to reach your goals?

Have you experienced technical failures in doing the work?

At the start of the work, did you have to consider whether the project was feasible or realistic?

If you answered YES to any of these you may be eligible to claim tax relief

What costs can be claimed?

All project costs that relate to eligible activities are potentially qualifying: -

Staffing costs such as salaries, employers' NI and pension contribution

Payments to staff controllers such as agencies and other third parties supplying manpower

Materials and utilities (water, fuel and power)

Computer software that is specifically required to support your R&D efforts

Sub-contracted R&D, where you are paying a third party for a package of work

- There are a number of **complicated rules** which also apply, expertise required
- Cost capitalised as fixed assets are excluded, but may claim as an **RDA**
- Costs subsidises may impact **which scheme** is relevant for your claim

Is there R&D in Construction?

Building Information Management	Environmentally Friendly Buildings
Performance Improvements	Offsite Manufacturing
Advanced Software	New Materials, Processes or Techniques
Enhanced Manufacturing	Environmentally Friendly Components

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How does the process work?

TRIAGE

Internal assessment of which projects within the overall portfolio are eligible for relief

ASSESSMENT

Arrange a series of discussions, undertaking detailed testing, analysis and documentation

ENUMERATION

Gathering of cost data and utilisation results to extrapolate costs for the entire portfolio if appropriate

REPORT WRITING

Compilation of the formal report, bringing together technical narratives and cost data

Approaches to claiming

It doesn't have to be complex...

- Any approach that is demonstrably **fair and conservative**, and backed by the technical experts in the company, can be acceptable to HMRC
- **Project** based, **Team** based, **Individual** based and **Proportionate** approaches have all been successful
- The nature of construction can present **challenges** since eligible activities are often **spread thinly** across numerous projects, but **role-based approaches** and example activities can be used to simplify claim
- This approach has **proved successful** for a number of large construction companies, generating millions of pounds of benefit

Emergent Themes?

Over recent months we have seen some themes emerge during our interactions with HMRC

SME versus RDEC

Software claim complexity

Materials passed to clients

Third party agreement structure

How do I choose a Provider?

COMPONENT	BIG 4	BOUTIQUE	MASS MARKET
COST	Likely to be most expensive	Cost level associated to value generation	Usually (but not always) cheapest
SERVICE	High volume of junior staff, with senior overlay	Only use senior experienced staff for minimal impact	Often get you to do the work, fill spreadsheets etc
COVERAGE	Often find the middle ground	Deep dive as appropriate and pursue with HMRC	Rarely interested in the marginal areas
CREDIBILITY	Credibility from reputation with HMRC	Credibility from track record with HMRC	Credibility from lack of risk taking



Questions?



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