

Research and development tax incentives: Large companies

How the R&D relief works for large companies.

The UK has a generous Research & Development (R&D) tax credit system for companies undertaking qualifying R&D. This has been designed to encourage investment in R&D and to make the UK an attractive location for innovative businesses.

Whilst more generous relief applies to SMEs, large companies are still able to benefit under the R&D Expenditure Credit (RDEC) regime.

A company is considered 'large' for R&D purposes if it has either:

- 500 or more employees; or
- an annual turnover of at least €100m and a balance sheet of at least €86m.

Where a company is a member of a group, the holding company and all companies in the group must together meet this definition.

What is R&D?

HM Revenue & Customs (HMRC) and the Department of Trade Business, Energy and Industrial Strategy have issued guidance on the meaning of R&D for tax purposes. In broad terms, for R&D activities to qualify for relief, they should aim to achieve an advance in science and technology through the resolution of a scientific or technological uncertainty. HMRC has indicated that the definition should be applied to all branches of science and technology, including software development.

An advance in science or technology includes work that:

- generates scientific or technical knowledge;
- creates a process, material, device, product or service which is new to the field; or

- appreciably improves something which already exists through scientific or technological change.

The R&D should not be seeking to create what is already available (except if it is a trade secret) or could readily be made available by a competent professional working in the relevant field.

Companies should ensure that they have sufficient records and documentation available to demonstrate how the work which they have done falls within the definition of R&D.

How does R&D relief work?

Large companies obtain R&D relief by claiming an RDEC.

The RDEC is equal to 12% of the company's qualifying R&D expenditure. The credit itself is taxable and so the net benefit for a company taxed at the current rate of corporation tax (19%) is 9.72%.

Profit-making companies will generally have the RDEC set against their current year corporation tax liability, rather than a cash payment being made from HMRC.

Loss-making companies may receive the RDEC in the form of a cash payment, although this is capped at the level of payroll taxes incurred in respect of R&D employees during that year. Any excess is then carried forward as a credit for the following year.

What sort of expenditure qualifies for R&D relief?

The following expenditure typically qualifies for the R&D tax relief:

- the cost of staff directly involved in the R&D work relating to the qualifying work undertaken;
- 65% of the cost of externally provided workers such as agency staff engaged by the company to work on the R&D project provided the two parties are not connected;
- the cost of software and consumable items such as fuel, power and water;
- amounts paid to certain organisations, e.g. universities and hospitals, for R&D undertaken on the company's behalf; and
- contributions to independent research undertaken by individuals and certain organisations providing it is relevant to the trade of the company.



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For expenditure to qualify for R&D relief it must relate to the trade of the company and must not be capital in nature. However, capital allowances of 100% are available on expenditure on capital assets, excluding land, used for R&D activities.

It is also worth noting that the accounting classification of R&D does not impact on whether the R&D costs are revenue or capital in nature for tax purposes, meaning R&D which has been capitalised in the accounts may still qualify for tax relief.

Subcontracted R&D

Large companies cannot claim R&D relief where the R&D has been subcontracted to them. This can be a concern where a multinational group has subcontracted R&D work to a UK subsidiary.

Companies that are not large (SMEs) cannot claim R&D relief under the SME regime where the R&D has been subcontracted to it by another company. However, where the R&D has been subcontracted by a large company or a company outside the scope of UK tax (e.g. an overseas parent company), the subsidiary may be able to claim under the large company RDEC regime.

How do I claim R&D relief?

The RDEC claim is included in the claimant company's corporation tax return and must be made within two years of the end of the accounting period in which the expenditure was incurred.

It is best practice to submit a report to HMRC along with the corporation tax return setting out how the various conditions to qualify for the relief are satisfied. Whilst this is not mandatory it can help address HMRC queries without a formal enquiry being opened.

How can Blick Rothenberg help?

Blick Rothenberg has a wealth of experience of providing advice to business owners on their R&D status.

We can help identify qualifying R&D projects, help you assess the quantum of the claims, prepare the supporting reports for HMRC, provide training to your inhouse teams and help you capture the necessary information at the forefront of your accounting systems making reporting more robust and efficient. We can assist you with completion and submission of your corporation tax returns, including the R&D claims.

As there is a two-year time limit to claim R&D relief, it is worth reviewing your position even if your tax return has already been submitted to HMRC.

If you think your business may be undertaking qualifying R&D activities, or would just like to understand more about the regime then please contact your usual Blick Rothenberg contact or one of our experts listed below.



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