



AIM Insight

Research and Development

Research and development tax credits

Advancements in science and technology are central to the government's agenda and significant tax incentives are available to companies undertaking innovative research and development ("R&D") work.

Many AIM-listed groups engage in activities that qualify for these valuable reliefs and groups should review their development expenditure to ensure they are not missing out.

What is R&D?

Identifying R&D qualifying projects can be difficult. It's not enough that the company is doing something commercially innovative; R&D tax relief is only available for projects that seek to achieve an advance in science and technology. It is necessary to show that the solution – whether or not achieved – is neither available in the public domain nor readily deducible by a professional working in the relevant scientific or technological field.

Particularly in the case of software projects, this can present difficulties. For example, it may be difficult to justify that software development activities achieve advancement, particularly where a given program has similar user features to the versions it supersedes.

We often encounter circumstances where R&D relief has been under-claimed, either due to lack of clarity over the tax rules or insufficient time for in-house staff to fully explore the opportunities. Even where R&D

claims are prepared by a group's internal tax function, an independent review may bring a surprising, and lucrative, fresh perspective about what can be claimed.

R&D tax reliefs

There are two R&D relief regimes available in the UK. The more generous SME regime applies to a number of AIM-listed groups. A SME is a standalone company or group which has:

- fewer than 500 employees; and
 - either an annual turnover not exceeding €100 million, or
 - a balance sheet total not exceeding €86 million.

Any company which is not a SME under the above definition is treated as a large company for R&D purposes.

SME regime

SMEs can claim an enhanced tax deduction equal to 230% of their qualifying R&D expenditure. Companies with tax losses can surrender those losses in exchange for a R&D tax credit equal to 14.5% of the loss. The credit takes the form of a cash payment from HM Revenue & Customs ("HMRC"). SME relief can create benefits of up to £33.35 for every £100 spent on qualifying R&D.



The legislation is very prescriptive about what types of expenditure qualify for the relief, so care must be taken to identify the relevant project costs.

Large company regime

For large groups, HMRC have introduced a R&D Expenditure Credit (“RDEC”). The RDEC is a credit, receivable by the company from HMRC, equal to 11% of the company’s qualifying R&D expenditure. As the credit is taxable, the net (i.e. post-tax) benefit is £8.91 for every £100 spent on qualifying R&D.

The RDEC is usually set against current or future tax liabilities but in some situations may also be repaid as a cash credit, 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.

Our services

We believe that working with our clients, often in conjunction with their technical departments, is the best way to maximise their R&D claims, with minimal disruption to the business. We often advise from the commencement of a project to ensure that future claims can be maximised. Where claims are prepared in-house, we can undertake a review only function.

Recent examples

We have worked closely with a range of large and listed groups to produce R&D claims across a variety of industry sectors. Recent examples include:

- Advice on the RDEC in respect of a business development platform developed by an AIM-listed group.
- Claims made in respect of an AIM group’s specialist research software tool.
- Maximising the R&D relief for an AIM-listed group where historical claims were understated.
- Delivery of a bespoke R&D workshop to technical staff at a FTSE 250 retail group, resulting in identification of additional opportunities for relief the following year.

Blick Rothenberg

The advantage of working with Blick Rothenberg is the close involvement of our partners and the depth of experience at your disposal.

We work closely with in-house finance teams of AIM-listed groups when providing support and advice in respect of R&D claims and offer a fully bespoke service tailored to each client’s specific needs.

For more information, please contact:



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