

M+A

Partners

- + Business Advisers
- + Tax Specialists
- + Chartered Accountants

R&D for Small and Medium Enterprises

Innovation Tax Relief - Research and Development (R&D) tax credits



M+A Partners has been helping clients to grow their businesses and achieve their ambitions for over a century - and we're immensely proud of our history.

We are a forward-looking firm with an emphasis on innovation, new technology and finding pioneering ways to give our clients the best possible service.

Our Norfolk-based firm is led by eight partners who are some of the most high-profile and well-respected experts in their fields locally, supported by a talented team of over ninety staff.

We have a well-earned reputation for building excellent relationships with clients and the wider business community. That has always been, and continues to be our number one priority.

The UK government have introduced several incentives to encourage UK companies to undertake R&D activities. One such incentive is the R&D regime for Small and Medium Enterprises (SME), which is considered in this fact sheet.

The Relief

R&D relief for qualifying revenue expenditure increases the amount that is deducted from taxable profits to 230% for expenditure incurred by an SME. Large companies are subject to a separate regime which is beyond the scope of this fact sheet.

Where an SME is loss making in a period in which qualifying expenditure is incurred, it can surrender this loss in exchange for a payable credit - HMRC will make a cash repayment to the business.

Example

A Ltd is an SME which incurs qualifying R&D expenditure during the year ended 31 March 2019 of £100,000.

If A Ltd is profitable in the period, it will be able to deduct a total of £230,000 from taxable profits. Assuming a corporate tax rate of 19%, it would **reduce A Ltd's corporation tax liability by £43,700**, meaning the company gets an effective rate of tax relief of 43.70% on the qualifying expenditure incurred.

If A Ltd is loss making in the period, the £230,000 can either be carried forward and set against future profits in the company; or it can be surrendered for a payable credit at a rate of 14.50%. This would result in a **cash repayment of £33,350**, meaning an effective rate of relief of 33.35% of qualifying R&D expenditure.

Considerations

Qualification of R&D activities

The first step in preparing an R&D claim is to establish which activities meet the definition of R&D for tax purposes.

To qualify, a product or process under development should utilise new techniques or information which increase the capabilities of the industry in which the company operates. The knowledge employed does not have to be new, but it does have to represent an improvement on what went before. Essentially, a qualifying R&D project will be looking to resolve an uncertainty blocking the realisation of the new product/service.

Our approach, based on guidance issued by HMRC, is to understand the following:

- + What is the advance sought?
- + What are the scientific or technological uncertainties involved in the project?
- + How and when were these uncertainties overcome?
- + Why was the knowledge being sought not readily deductible by a competent professional working in that field?

Quantifying the expenditure

Once the qualifying projects are identified, we can move toward quantifying the amount of qualifying expenditure, which must be:

- + Revenue and not capital in nature. (Please note: separate relief is available for qualifying capital expenditure in the form of enhanced capital allowances).
- + The amounts must not be incurred in carrying out activities contracted to the company by another person (however relief may be available under the Research & Development Expenditure Credit).
- + The expenditure must not have been met by another person (if the R&D project is funded in whole or part by 'State Aid' such as government grants, it may be that none of the expenditure would attract R&D relief).

You must make a claim for R&D relief in your company tax return. The normal time limit for making a claim is two years after the end of the accounting period in which the qualifying expenditure was incurred.

Next step

If you think you have undertaken projects that exhibit the hallmarks referred to in this factsheet, why not have an initial discussion with one of our specialists to see how you might be able to benefit from this generous regime, please contact:

Steve Dack - Tax Director

☎ 01603 227660 ✉ steve.dack@mapartners.co.uk

Tafadzwa Kativu (TK) - Tax Assistant Manager

☎ 01603 980630 ✉ tafadzwa.kativu@mapartners.co.uk

You may also like to visit mapartners.co.uk and view our **free online resources**.

Disclaimer We believe the information herein to be correct at the time of going to press, but we cannot accept any responsibility for any loss occasioned to any person as a result of action or refraining from action as a result of any item herein.

June 2019 Printed and published by © MA Partners LLP. M+A Partners is the trading name of MA Partners LLP, a limited liability partnership registered in England and Wales (LLP number OC 361855) A list of members may be inspected at our registered office: 7 The Close, Norwich, NR1 4DJ. The term "partner" is used to refer to a member of MA Partners LLP Registered to carry on audit work in the UK; regulated for a range of investment business activities; and licensed to carry out the reserved legal activity of non-contentious probate in England and Wales by the Institute of Chartered Accountants in England and Wales.



Steve Dack
Tax Director

☎ 01603 227660

✉ steve.dack@mapartners.co.uk



Tafadzwa Kativu
Tax Assistant Manager

☎ 01603 980630

✉ tafadzwa.kativu@mapartners.co.uk

MA Partners LLP

7 The Close Norwich
Norfolk NR1 4DJ

2 Cyprus Court Queens Square
Attleborough Norfolk NR17 2AE

12 Church Street Cromer
Norfolk NR27 9ER

☎ 01603 227600

✉ enquiries@mapartners.co.uk

mapartners.co.uk



mapartnersuk

