

Subject to certain conditions, 'small and medium sized enterprises' which spend at least £10,000 per annum on qualifying Research and Development expenditure will be able to claim enhanced R&D relief enabling them to deduct 175% of their qualifying R&D expenditure in computing their taxable profits. The relief only applies to companies.

The expenditure must be of a revenue nature and must be on staffing costs, externally provided workers, consumable items and power, water, fuel and software used directly in carrying out R&D. It must be undertaken directly by the company or on its behalf and be related to a trade carried on by the company.

The key factor is that the activities must be creative or innovative work in the fields of science or technology and undertaken with a view to the extension of knowledge.

### **Small and Medium Sized Enterprises**

These are companies with fewer than 500 employees, and either annual turnover not exceeding €100m or a balance sheet not exceeding €86m and which is not part of a larger enterprise that would fail these tests.

### **Qualifying Staff**

Qualifying staff are those staff directly and actively involved in carrying out the R&D activity. These people are the researchers, managers and directors who directly plan and organise the program of research and technical and other staff who directly provide support for the research effort.

### **Qualifying Staff Costs**

These comprise:

- i. Salaries, wages, fees and bonuses;
- ii. Employers' national insurance contributions;
- iii. Payments to a pension fund by the employer in respect of the company's directors or employees directly engaged in R&D.

### **Externally provided workers**

These are individuals who are not directors or employees of the company but personally provide services to the company and who are subject to control by the company as to the manner in which those services are provided.

### **Subcontract R&D**

Except where the company and subcontractors are connected persons, 65% of payments to subcontractors qualifies.

### **R&D Consumable Items**

These comprise items such as materials and equipment used up in the direct conduct of the R&D but which are not in themselves incorporated or reflected in the product of the R&D.

Consumable items are by their nature comparatively short lived and spending on them will be revenue expenditure.

### **Ownership**

R&D tax relief is available for expenditure on R&D provided that

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the ownership of the fruits of the R&D will vest in the claimant company. This does not mean that the R&D must be successful or result in the creation of intellectual property. R&D is inherently risky and may end in failure but the company can still claim relief if the R&D is unsuccessful provided that it would have owned any intellectual property that could have been created had the R&D been successful.

### **The Relief**

The company can claim relief for an additional 75% of the qualifying expenditure against its profits.

If the company has a loss for that period, it may instead claim an R&D tax credit against its PAYE/NIC liability for

the period and reduce the amount of loss carried forward. The tax credit is 24% of the qualifying expenditure.

### **Relief for Large Companies**

Relief is also available for large companies for:

- direct R&D;
- sub-contracted R&D;
- contributions to independent R&D.

The additional amount qualifying for relief is 30% of the qualifying expenditure but it cannot claim a repayable tax credit.

A small or medium sized company can qualify for relief on R&D expenditure subcontracted to it by a large company.

## **Advice that stands the test of time**

**This is intended to provide a guide to current tax issues. It is not a substitute for technical advice. If you have any queries, please do not hesitate to contact us.**