



Research and Development Relief

R&D tax relief is for companies that work on innovative projects in science and technology. The project has to meet HMRC's definition of R&D.

R&D is broadly defined as any project that 'seeks to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty'.

This could be a business's innovative activities to improve an existing process, product or service, or to develop a new process, product or service. It doesn't have to be a major advance. It will be enough that it tries to resolve a particular element of a process your company is involved in, provided no one else has already developed the same solution.

For example:

- Bespoke computer software
- Component within a machine
- Client request not available on the market

You need to show there was 'uncertainty' and explain how you tried to overcome this.

How much is the relief?

If your company is involved in research and development (R&D), it may be entitled to a relief which could reduce the company's tax bill or generate a cash sum payable by HMRC.

The tax relief is available on the amount of your relevant costs, most commonly:

- Staff costs
- Consumable materials
- Utilities – light, heat, power, water
- Software – used directly in the R&D
- Subcontracted R&D expenditure – 65% of this cost in appropriate circumstances
- Externally provided workers

Also, capital expenditure directly related to R&D activity may be eligible for 100% capital allowances.

Since April 2015, the relief available for small and medium sized companies is 230%, i.e. for every £100 spent on R&D, the tax deduction from the company's profits is £230.

Where there is no tax liability, it's possible to generate a cash refund. A company that has made a loss may be able to surrender this loss to HMRC in return for a cash payment of 14.5% of the lower of the current year loss and total R&D claim.

Time limit

Claims must be made in the company tax return, so there are only two years from the end of the relevant accounting period in which to make a claim.

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