Research & development Tax relief for SMEs

By Greg Howe, Braithwaite Tax Recovery Consultants

Working with the PPMA as a strategic alliance partner, Braithwaite Tax Recovery Consultants can help eligible members claim tax relief on research & development (R&D) expenditure, which for SMEs has been available since 1 April 2000, and from 1 April '02 for large companies.

What are the Incentives?

The SME Scheme is available in two forms:

(a) An enhanced deduction of 50% of your R&D expenditure in the tax computation. This works out to about a 10% to 15% after tax benefit on R&D spend depending on your corporate tax rate. So if your company spent £100,000 on R&D you can expect approximately a £10,000 to £15,000 after tax saving on this work.

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SME

10-15%
savings on R&D*
OR
up-to 24%
of R&D spend for loss making companies

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(b) If your company is loss making you are eligible to surrender your losses for a cash refund from the government of up to 24% of R&D spend. Therefore, even if your company does not pay any corporation tax the government will send you a cash cheque for your development work. So if you are loss making and spend £100,000 on R&D you can expect up to £24,000 in cash back from the government.

The Large Company Scheme applies as follows:

A large company can enhance its R&D expenditure by 25% in its tax computation. This works out to around a 7.5% after tax benefit of their R&D spend assuming a 30% tax rate. For large companies there is no refundable cash cheque if you are loss making. Therefore, if a large company incurs £100,000 of R&D expenditure it can expect an after tax saving of £7,500 on this expenditure.

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Large Company

7.5%
savings on R&D*

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** after tax benefit depending on your corporate tax rate*

Are you eligible?

If your business is creating new or improving existing products, processes, materials, devices or services you are probably eligible to claim R&D tax relief on that work.

- Companies should identify areas where their development work deviated from standard practice.
- Commercial success of your development projects is not a determining factor in your eligibility for R&D tax relief and in many cases commercial failure will support your claim.
- Failure in your development work and cost over-runs are not requirements for the existence of eligible R&D work.
- Many areas of successful development work, achieved at or below budget and which went into production and sold are eligible for relief.

SME Clarification

Generally if you employ less than 250 staff and have either a turnover of less than circa £34 million or total assets of less than circa £29 million you will meet the SME test provided you are not a member of a large group of companies that fails these thresholds.

Retrospective claims

At present companies can go back up to 6 years to make retrospective claims. However, the government is **currently taking steps to shorten this time frame to 2 years**. It is very important for companies who have yet to make claims to take the necessary steps to submit for their earlier accounting periods.

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Many PPMA members will qualify for R&D tax credits. If you are interested in outsourcing your claim please contact Greg Howe ghowe@btrcl.co.uk at Braithwaites who can assist with the entire claim process on a 'no-win-no-fee' basis T 0845 331 3149 www.btrcl.co.uk

Companies Act Amendment applies to all websites and emails

From 31 December 2006 an amendment to the Companies Act 1985 came into force requiring a company's website, e-mails, business letters (in hard and soft copy) and order forms to include the same details as are required for its stationery, i.e. the company's full name in legible characters and its place of registration, company number and registered office. Companies and their officers are liable to a fine if they are in breach of these provisions. For full details and implications go to: http://www.dti.gov.uk/files/file35183.doc (NOTE at the time of writing, some of the references to sections of the Companies Act 1985 appear to be wrong).