

ROTHERHAM TAYLOR
LIMITED
Chartered Accountants & Registered Auditors

THE LOWDOWN ON RESEARCH & DEVELOPMENT TAX RELIEFS

YOUR FORW**7**RD
THINKING ADVISERS

WHAT IS R&D TAX RELIEF?

The R&D Tax Relief Scheme was introduced to support, reward and encourage companies undertaking R&D.


It offers Tax Relief that reduces your company's Corporation Tax bill, or in some cases, will result in a payable tax credit.

WHAT BUSINESS ARE ELIGIBLE?

Small to medium-sized enterprises (SMEs) can claim R&D Tax Credits through the SME scheme.

It is open to solvent registered companies with fewer than 500 staff, and a turnover of under €100 million or a balance sheet total of under €86 million.

The rates of relief are as follows:

- The additional deduction rate for the SME scheme is 86 per cent, making a new total deduction rate of 186 per cent.
 - The SME credit rate has decreased to 10 per cent for most claims.
 - The RDEC rate has increased to 20 per cent.
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WHAT R&D PROJECTS ARE ELIGIBLE?

A business must first determine whether their R&D project is eligible before they consider claiming for their eligible expenditure.

This can sometimes be the hardest part of an R&D claim as it depends on several important criteria. For your project to qualify you will need to show that it:

- Aimed to make an advance in an area of science and technology.
- Involved technological uncertainty.
- Made efforts to overcome this uncertainty.
- Couldn't have been easily worked out by a qualified professional in the field.

You may be asking, 'What is an advance?' or 'What is a technological uncertainty?' HM Revenue & Customs's (HMRC's) definitions of these are:

- **Technical or Scientific Advance:** A project outcome that creates an advance in an overall field of science or technology, not just for your business or sector.
- **Technological Uncertainty:** Something that isn't known to be scientifically or technologically feasible at the beginning of the project.

The rules around eligibility are complex, and many businesses do not realise that their projects may be suitable for a claim. Often assumptions are made that this relief only applies to the most innovative businesses in highly technical sectors, such as engineering, manufacturing or IT, but this relief is open to all businesses as long as they meet the eligibility criteria.

Successful claims have been made by:

- Private healthcare clinics.
- Dentist practices.
- Agricultural businesses.
- Education.
- Finance and insurance.
- Construction.
- Real estate.
- Hospitality.
- And many more.

If you are unsure whether a project might be eligible it is best to seek professional advice.

WHAT IS ELIGIBLE R&D EXPENDITURE?

Once you've worked out which projects are eligible for R&D Tax Relief, you will need to identify what the eligible costs associated with the work are.

These fall into five main categories:

- Staff costs, including pensions and bonuses.
- Subcontracted costs.
- Raw material costs.
- Utility costs.
- Software costs.

When collating costs, you should make sure that these align with your company's profit and loss for the year so that HMRC can see how these costs link in with your financial statements.

HMRC will also expect any apportionments applied to R&D costs to be fair and reasonable. In some cases, HMRC applies more advanced criteria around what costs are eligible, including caps on certain expenditure.



HOW CAN YOU CLAIM R&D TAX CREDITS?

Making an R&D claim allows you to do one of the following:

- Reduce your Corporation Tax liability for the period.
- Get a refund of Corporation Tax that has already been paid.
- Receive a tax credit (in the case of loss-making companies).

To claim R&D Tax Relief, you will need your accountant to enter the claim on your Corporation Tax return. In addition, HMRC expects a clear R&D report to be submitted alongside the worked calculations for the R&D claim.

This report is what HMRC reviews to determine if you meet all their criteria for R&D eligibility, so it is important to produce a robust report for a claim to be successful.

The timelines for claiming R&D Tax Credits are strict – you must submit any R&D claim within two years of the end of the accounting period in which the work took place.

HMRC will not process any claims submitted after this deadline, which could lead to you missing out on huge tax benefits.



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