

At Touchpoint Change we are always looking for ways to improve your efficiency and make your income go further.

Steve Crompton, Tax Director at Mazars, a top 10 Accountancy firm, has researched an HMRC R&D tax scheme and offers some advice to readers of *Change!*

### **Research & Development Tax Relief**

Many businesses engage in research activity to gain a competitive edge. Now there is an enhanced tax relief available to companies who are involved in projects that seek to achieve an advance in science or technology.

Where the R&D qualifies a tax relief is available. From 1<sup>st</sup> August 2008 small and medium-sized enterprises (SMEs) can claim an enhanced deduction of 175% of their qualifying R&D costs as a deduction against profits – thus reducing their corporation tax bill.

Whether a project qualifies for R&D relief will depend on its parameters, for example:

- What the R&D project entailed, and, if relevant, how it related to a wider commercial initiative
- The particular scientific or technological uncertainties involved in the project, how they were overcome and by what method
- Whether the methods of overcoming the problems were scientific or technological

advances, going beyond the current state of knowledge

- Why the knowledge or capability sought was not readily deducible by a competent professional in the company

If the SME has made a taxable loss instead of a profit, then it may surrender the lower of the actual loss or 175% of the qualifying R&D costs to obtain a repayable R&D tax credit.

This credit is payable in cash and is calculated as 14% of the R&D loss, but restricted to the company's total PAYE and National Insurance liabilities for the accounting period of the claim.

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#### **SME example:**

If qualifying R&D costs £50,000 then the R&D loss relief is £50,000 x 175% = £87,500

The repayable tax credit is £87,500 x 14% = £12,250 (or the total PAYE/NIC bill if lower).

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The qualifying R&D costs can include:

- Staff costs (including salaries, bonuses, pension contributions and employers NIC).
- Consumable stores
- Water, fuel and power
- Licensed software costs
- Sub-contracted costs

Large companies can also claim an enhanced tax break, but it is limited 130% of qualifying R&D cost. These businesses unfortunately do not qualify for the R&D tax credit scheme.

The rules and guidance notes for determining whether a project will qualify for R&D relief are complex. HM Revenue & Customs have specialist teams who review claims when they are submitted.

It is therefore essential to consult a tax specialist when dealing with a claim for R&D tax relief. This will enable the project to be reviewed from the outset and for the claim to be prepared in a format acceptable to HMRC.

For more information please contact Steve Crompton at Mazars, who will be pleased to give you some advice.

Or contact Touchpoint Change to explore how to most effectively manage your R&D projects, improve your chances of keeping them on track, and get the benefits of the investment.

#### **Mazars LLP, Accountants and Business Advisers.**

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💻 For more information see <http://www.mazars.co.uk>

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Written for *Change!* - the newsletter of Touchpoint Change Consulting. [info@TouchpointChange.co.uk](mailto:info@TouchpointChange.co.uk)