

A photograph of two business professionals in a meeting. One person, wearing a blue shirt, is pointing with a pen at a document on a desk. The other person, wearing a green shirt, is pointing at the same document. The document features several pie charts and a list of items labeled 'Product 1' through 'Product 7'. In the background, a laptop is open on the desk, and a window with blinds is visible, letting in natural light.

RESEARCH AND DEVELOPMENT TAX RELIEF FOR SMALL AND MEDIUM-SIZED ENTERPRISES

Research and Development tax relief for small and medium-sized enterprises

Find out about Corporation Tax relief for costs on research and development (R&D) if you're a small or medium-sized enterprise.

Overview

Small or medium-sized enterprise (SME) R&D tax relief allows companies to:

- deduct an extra 130% of their qualifying costs from their yearly profit, as well as the normal 100% deduction, to make a total 230% deduction
- claim a tax credit if the company is loss making, worth up to 14.5% of the surrenderable loss.

To claim the relief you need to be a SME and show how your project meets our HMRC definition of R&D.

Companies who are making their first R&D claim can qualify for advance assurance. If Advance Assurance is granted, any R&D claims in the first 3 accounting periods will be accepted if they're in line with what was discussed and agreed.

Companies that can claim relief

You can claim R&D tax relief if you're a SME with:

- less than 500 staff
- a turnover of under €100m or a balance sheet total under €86m

If your company has external investors, this can affect your SME status. You may need to include the figures of connected companies and partner companies when you work out if you're a SME.

You cannot claim SME R&D relief if the project is already getting notifiable state aid or you've been subcontracted by another company. However, you may be able to claim the R&D Expenditure Credit (RDEC).

Connected companies

The staff, turnover and balance sheets of any connected companies should be included in your total. Your company is connected to another one if:

- it holds over 50% of the voting rights in another company
- another company holds over 50% of the voting rights in your company

Partner companies

You have a partner company if:

- another company holds over 25% of your voting rights or capital
- you hold over 25% of another company's voting rights or capital

You need to include a proportion of the staff, turnover and balance sheets of partner companies. This should be based on the percentage of voting rights and capital that connects the 2 companies. For instance, if you own 30% of another company you should include 30% of its staff, turnover and balance sheets when calculating if you're a SME.

Costs you can claim

You can claim certain costs on the project from the date you start working on it until you develop or discover the advance, or the project is stopped.

Employee costs

For staff working directly on the R&D project, you can claim a proportion of their:

- salaries
- wages
- Class 1 National Insurance contributions
- pension fund contributions

You can claim for administrative or support staff who work to directly support a project. For example, human resources used to recruit a specific person to work on the project. You cannot claim for clerical or maintenance work that would have been done anyway, like managing payroll.

You can claim 65% of the relevant payments made to an external agency if they provide staff for the project.

Subcontractor costs

You can claim 65% of the relevant costs of using a subcontractor for your R&D activities.

Software

You can claim for software licence fees bought for R&D and a reasonable share of the costs for software partly used in your R&D activities.

Consumable items

You can claim for the relevant proportion of consumable items used up in the R&D. This includes:

- materials
- utilities

Clinical trials volunteers

For R&D projects in the pharmaceutical industry, you can claim for payments made to volunteers involved in clinical tests.

Costs that cannot be claimed

You cannot claim for:

- the production and distribution of goods and services
- capital expenditure
- the cost of land
- the cost of patents and trademarks
- rent or rates

Work out when the R&D activity starts and ends

The R&D activity starts when you begin working to resolve the uncertainty. You'll need to identify the technical issues that need to be resolved, and make sure there is not an existing solution that has already been worked out.

The R&D activity ends when you solve the uncertainty or stop working on it. The activity you claim R&D relief for should end once you have a working prototype that solves the problem, and before you go into production.

Your R&D may restart if you find another scientific or technological uncertainty after you've started producing the product. If this happens, you can claim for further R&D while you try to resolve it.

How to claim R&D relief

You can make a claim for R&D relief up to 2 years after the end of the accounting period it relates to.

You can claim the relief by entering your enhanced expenditure into the full Company Tax Return form (CT600).

You can then use the online service to support your claim.

To calculate your enhanced expenditure you need to:

1. Work out the costs that were directly attributable to R&D.
2. Reduce any subcontractor or external staff provider payments to 65% of the original cost.
3. Add all costs together.
4. Multiply the figure by 130% to get the additional deduction to put in to your tax computations.
5. Add this to the original R&D expenditure figure to get the enhanced expenditure figure which you can enter into your tax return.

If you make a trading loss, you can choose to surrender this and claim a tax credit. You can find out how to convert tax relief into payable tax credits in the Corporate Intangibles R&D Manual.

Details you'll need to support your claim

It will help your claim if you give us a short summary that explains how your project:

- looked for an advance in science or technology and aimed to achieve this advance
- had to overcome scientific or technological uncertainty
- overcame this uncertainty
- could not easily be worked out by a professional in the field

You'll also need:

- the start and end dates of the accounting period relating to the R&D activity - these should be the same dates as the period covered by your CT600 return
- your 10 digit company unique tax reference (UTR) number
- the total amount of tax relief you're claiming
- a breakdown of your qualifying R&D costs
- your unrelieved trading loss for the claim period

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Get in touch

For further advice on R&D tax relief for small and medium-sized enterprises, please contact Evelina Sobczyk on:

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