

# GOVERNMENT CASH GIVEAWAY TO ENTREPRENEURIAL COMPANIES!!

(A.K.A. THE RESEARCH AND DEVELOPMENT TAX CREDIT)

The enhanced tax reliefs for Research and Development expenditure was introduced in the Finance Act 2000 and has been considerably updated since then.

There have been important changes for Research and Development claims effective from 1 August 2008. The following is a summary of the rules.

The relief can provide both start-ups and existing businesses with important and significant cash flow benefits across a range of activities.

It is possible to obtain a cash payment from HM Revenue & Customs within a few weeks where the company has significant losses. Companies whose accounts are not produced on a going concern basis will be denied R&D relief under the EU State Aid rules.

## What are the benefits?

Expenditure on relevant R&D will allow small or medium-sized companies to either claim a 175% tax relief ("R&D tax relief"), (previously 150% until 31 July 2008), or obtain a repayment of up to 24.5% of the expenditure incurred (a "payable R&D tax credit"). This represents for every £100,000 of relevant expenditure a cash payment of up to £24,500 or a corporation tax saving of between £27,000 and £49,000.

Large companies can claim a 130% tax relief from 1 April 2008, (previously 125% until 31 March 2008).

## What is "relevant R&D"?

Relevant R&D expenditure is money spent on an overall project that seeks to achieve an advance in science or technology. The work must be aimed at producing knowledge or a product new to the field of activity or appreciably improve an existing product. Such expenditure may be carried out, for example, in companies involved in IT, motorsport, medical research, chemicals, etc.

Briefing

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Dr John Burt, CEO of Thiakis, a successful VC-backed company developing obesity therapies derived from research at Imperial College London and R&H client since its early days, said *"The availability of the repayable tax credits enabled us over the last two years to bolster our cashflow at a very important time for the company. Putting the claims together with R&H was a straightforward process and we have received cheques from HM Revenue & Customs weeks after sending the claims in".*

# THE RESEARCH AND DEVELOPMENT TAX CREDIT

## 1. How much can we claim for R&D?

Assuming you are a small or medium sized company you can choose between a cash repayment of up to 24.5% of the relevant R&D expenditure or you can claim a tax deduction equal to 175% of relevant R&D expenditure.

## 2. Who can claim R&D tax credits?

They are available to small or medium sized enterprises (SMEs), which are defined as having:

- < 500 employees; (250 employees until 31 July 2008)
- turnover < €100 million (approx.); (€50 million until 31 July 2008)
- gross assets < €86 million (approx.); (€43 million until 31 July 2008)
- no non-SME shareholders in aggregate with >25% interest (VCs not exercising control are an allowable exception).

Companies which do not qualify as SMEs can claim the lower large company relief, and cannot claim a repayment.

## 3. How do we claim R&D tax relief and when can we get a cash repayment?

Both R&D tax relief and payable R&D tax credits are claimed by the company in its corporation tax return. If a payment is due it can be obtained very shortly after the tax return is submitted.

## 4. What type of activities would normally be included in R&D?

To qualify as R&D, the expenditure must be incurred on a project that seeks to achieve an advancement in science or technology "to resolve a scientific or technological uncertainty". It may result in a product that is initially unique in its field because of the scientific or technological advance. If the R&D is successful, the company must effectively own any resulting intellectual property.

## 5. What is meant by relevant R&D expenditure?

Expenditure, which meets all of the following conditions, will qualify as relevant R&D expenditure:

- staffing costs (including contractors) and software or consumable items used in R&D work;
- it is not capital expenditure, although there may be other tax allowances available for capital R&D expenditure;
- it must be incurred by the company or on its behalf;
- the R&D expenditure must relate to an existing trade or to an intended trade of the company;
- it is not subsidised by Government or other grants.

Consideration should be given to the accounting policies of the company in respect of R&D expenditure.

## 6. Is there a minimum spend for R&D tax relief?

Yes - £10,000 in a 12 month period or a proportionately reduced amount for a shorter period.

## 7. Is there a maximum spend?

For SME's, a new cap of €7.5 million per project is effective from 1 August 2008.

## 8. What is the deadline for submitting these claims?

Within 12 months of the filing date of the company's tax return.

## 9. What if my accountant has already submitted the return?

An amended return can be submitted including the enhanced R&D claim, but within the normal due dates for submitting an amended return.

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