



OVERVIEW

The Research & Development Expenditure Credit ('RDEC'), formerly known as the 'Above The Line' Credit, enables a company to claim an 11% taxable credit on qualifying R&D spend, which can be used to reduce its corporation tax liability or, if no liability exists, be repaid in cash.

The RDEC is designed to allow the tax credit to be recognised 'above the line' in the financial statements, with the intention that this will encourage companies to consider the tax incentives associated with R&D in planning budgets at project P&L level and assessing performance of the project team.

The introduction of the RDEC scheme does not change the definition of R&D or the range of expenditure qualifying for tax relief.

The RDEC scheme became mandatory from 1 April 2016. Until then, companies could choose whether to use the RDEC scheme or to use the existing large company scheme.

What is the benefit of the tax credit?

From 1 April 2015, the tax credit is 11% of the qualifying R&D spend. This tax credit can be used to offset a company's corporation tax liability or, if no liability exists, can be repaid directly to the company.

The post tax benefit of the 11% tax credit will be 8.91% (i.e. £8.91 in every £100 of qualifying spend as an additional benefit over and above the standard corporation tax relief). This assumes a corporation tax rate of 19%.

Examples

(a) Profit making company

	RDEC Scheme (£'000)	No claim (£'000)
Turnover	2,400	2,400
R&D Expenditure	(1,000)	(1,000)
Enhanced R&D Deduction	-	-
Tax credit @ 11%	110	-
Other expenditure	(1,000)	(1,000)
Taxable Profit	510	400
Corporation tax @ 19%	96.9	76
Tax credit	(110)	-
Tax payable/(repayment)	(13.1)	76
Tax saved compared to no R&D relief	£89.10	-

(b) Loss making company

	RDEC Scheme (£'000)	No claim (£'000)
Turnover	2,400	2,400
R&D Expenditure	(1,000)	(1,000)
Enhanced R&D Deduction	-	-
Tax credit @ 11%	110	-
Other expenditure	(1,000)	(1,000)
Tax adjusted loss (carried forward)	<u>(490)</u>	<u>(600)</u>
Repayable tax credit (£110,000 less tax at 19%)	89.1	-
Tax withheld and carried forward	20.9	-
Tax value of loss carried forward	93.1	114
Tax value of losses and R&D relief	<u>£203.1</u>	<u>£114</u>
Tax saved compared to no R&D relief	£89.1	-

As illustrated above, a loss making company making a claim under RDEC on R&D expenditure of £1million would receive an £89,100 cash repayment. In addition, £20,900 of tax withheld by HMRC is carried forward to set-off against future corporation tax liabilities. Thus, the net benefit to the company (assuming it has a future corporation tax liability) is £110,000.

Claiming RDEC

RDEC is administered through the corporation tax system. Therefore, claims to RDEC will form part of the company's tax return. Claims can be made retrospectively, up to two years following the end of an accounting period to which the claim relates.

How can Rawlinson & Hunter help?

Rawlinson & Hunter can assist in identifying whether a project will qualify for R&D relief, and can prepare a detailed R&D tax report for submission to HMRC in order to claim the relief. We will assign a member of our team to liaise directly with HMRC on the R&D claim, and they will work to resolve any queries as they arise and seek to secure the success of the claim.

Many companies miss out on claiming R&D relief because they do not fully identify those activities or costs which qualify for the relief. If you would like to find out whether and to what extent your company and activities may be eligible, please call the Rawlinson & Hunter partner who normally acts for you. Where you are not one of our regular clients, please contact Craig Davies or Andrew Shilling, who would be delighted to discuss this with you in more detail.

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