



TAX INSIGHT
September 2015

UK R & D Tax Reliefs

HMRC 2015 R & D Report

Tax for Innovative Companies

UK R & D Tax Reliefs

We were recently asked to provide Press commentary on the recently published 2015 HMRC R & D report.

The Report shows a record number of UK claims reaching some £1.75bn. This reflects R & D costs of some £14.3bn – a major economic upturn in the innovative economy.

SME Activity

The headline news for small and medium Companies is that R & D tax relief was claimed by more than 20,000 SME's in 2014 (+27% from 2014). When the R & D schemes were first introduced a mere 1,000 Companies were claiming R & D relief (2002). Awareness is a key factor – there has been no definitive change in the types of Companies that can claim R & D over the past 15 years. The economic upturn is shown progressively over the last 3 years – when claims have risen from 12,000 to 20,000. But the generosity of the reliefs now plays a key factor in corporate tax strategy. For SME companies these include,

- Significant increases in the rate of SME tax reliefs (230%)
- Uplifting the cash credit to 32% of the R & D 'spend'
- Simplifying the red tape for loss making SME's
- Abolishing the 'PAYE' cap that tied eligible companies into a payroll ceiling for support
- Removing complex 'agency worker' rules

Can your Company Claim?

The definition of R & D is universal and a key feature of the 2015 report is the variety of businesses recognising bona fide development work for tax purposes.

The HMRC trial 'assurance' scheme provides free advice for Companies struggling with the concept of R & D.

Can I bolster my Company's claim further?

Recent budgets have changed the tax on dividend payments to Directors, eroding the national insurance breaks and tax differentials. However the Directors of SME businesses



are often at the core of the R & D activity and we have been able to advise a number of Companies on the enhanced tax breaks for R & D salary costs (as opposed to ineffective dividend payments).

Key questions:

- **What happens if my Company continues to make tax losses?**
- **Are the costs of directors and key employees being properly recognised?**
- **Is the claim prepared in compliance with HMRC regulations – errors now carry a 100% tax geared penalty?**
- **What happens if I sell or expand my business?**
- **How do the reliefs tie in with employee incentives?**

Expert assistance

Despite the positivity of the 2015 report, getting the claim right remains key. Incorrect and insufficient R & D claims

are bad news. Each year HMRC reject numerous claims and apply penalties for incorrect claims of up to 100%. Our analysis shows 92% of these claims originate from accountants or claims prepared 'in-house'. On average, we have been able to add 48% to claim values for cases referred from accountants.

Tax Insight Team

Our team is headed by **Maria Kitt (Author: UK R & D Tax Reliefs – Bloomsbury Professional Press)**. Maria is one of the UK's leading authorities on UK Research and Development tax reliefs and writes and lectures on UK R & D tax breaks. She brings a wealth of UK and international tax knowledge across a wide range of specialist industries. Maria has extensive corporate tax experience including heading a HMRC corporate tax unit for a number of years.

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