

# Research & Development (R&D) Tax Relief for SMEs & Large Companies



The R&D schemes for SMEs and large companies have been altered and improved over recent years. Both schemes offer higher rates of tax savings and the ability for loss making SMEs to receive a much needed cash refund.

## What is R&D?

It is a common misconception that companies operating in only certain limited sectors are eligible for R&D tax relief. However, this is not the case.

In broad terms, R&D is defined as activities which are carried out that “seek an advancement in science or technology through the resolution of some scientific or technological uncertainty”.

In real terms, the advance may be the development of a product or a process, and in some circumstances, may include software development.

## R&D Tax Relief

There are two schemes currently in operation which provide additional tax relief for qualifying R&D expenditure:

**The SME scheme** allows an additional deduction of 130% of any qualifying R&D expenditure. Therefore, for every £100,000 of R&D expenditure incurred, the SME would be able to deduct £230,000 from its taxable profits. Applying current rates of corporation tax, this would result in savings of £46,000 for the company.

Loss making SMEs can also benefit by receiving a repayable tax credit. Applying the same example as above, if the SME is loss making it could receive a tax refund of 14% of the uplifted amount (£230,000) of qualifying R&D expenditure. This would result in a valuable cash injection of £32,200 for the SME.

For periods to 31 March 2016, the **large company scheme** operated by providing an additional corporation tax deduction of 30% of the qualifying R&D expenditure, with no repayable tax credit for loss making companies.

## Large companies post 1 April 2016

From 1 April 2013 a new R&D tax credit (“RDEC”) was introduced for large companies, providing a repayable tax credit of 10% of R&D expenditure. Until 31 March 2016, large companies could choose whether to continue to use the old scheme where qualifying R&D expenditure was enhanced by 30%, or to opt to use the new scheme.

In many cases, it was more efficient for large companies to use the old scheme. However, from 1 April 2016 all large companies will have no choice but to apply the RDEC when making R&D claims.

The new scheme for large companies also allows a cash repayment to be claimed from HMRC if the company is not yet profitable.

## Making a claim

DTE has helped many clients, both SMEs and large companies, in securing valuable tax relief. If you believe that you may have incurred any R&D expenditure, we would be happy to have an initial free of charge meeting to review further details.

For further help or advice please contact either:

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