

R&D tax relief provides incentives for companies who have invested resources developing **new or improved products, processes and software**. Under the SME scheme, your company can claim an **enhanced deduction of up to 230% from 1 April 2015** of qualifying expenditure, significantly reducing your company's tax bill.

It is also possible for a loss making SME to claim a **cash credit of up to 33.35%** of their qualifying R&D expenditure. Large companies may benefit from R&D Expenditure Credits. The following illustrations help explain what can be claimed and demonstrate the potential value of R&D tax relief.

Illustration – SME (profit making)

	£	£
Staff costs		
Salaries	61,000	
Employers NI	11,000	
Pension contributions	8,000	
		80,000
Subcontractors (£60,000 @ 65%)		39,000
Consumables		28,000
Utilities		3,000
Total qualifying expenditure	150,000	
Additional deduction @ 130%		195,000
Tax saved @ 19%		37,050

Illustration – SME (loss making)

	£	£
Staff costs		
Salaries	61,000	
Employers NI	11,000	
Pension contributions	8,000	
		80,000
Subcontractors (£60,000 @ 65%)		39,000
Consumables		28,000
Utilities		3,000
Total qualifying expenditure	150,000	
Additional deduction @ 130%		195,000
Total enhanced expenditure		345,000
Tax credit claimed @ 14.5%*		50,025

*The losses eligible for surrender are restricted to the adjusted unrelieved trading losses arising in the period. The tax credit claimed represents 33.35% of the total qualifying expenditure identified.

Illustration – large company

R&D Expenditure Credit (RDEC)	£	£
Staff costs		
Salaries	61,000	
Employers NI	11,000	
Pension contributions	8,000	
		80,000
Subcontractors (restricted under RDEC)		-
Consumables		28,000
Utilities		3,000
Total qualifying expenditure		111,000
RDEC @ 13% (12% prior to April 1 2020)		14,430
Tax on RDEC @ 19%		(2,742)
Net tax credit		11,688

In the first instance, the net tax credit will be offset against your company's corporation tax liability in the period.

Any excess tax credit may be surrendered to other group companies or be repaid back to your company.

About PEM

- One of the largest firms of chartered accountants and tax advisors in East Anglia
- Based in Cambridge with 16 Partners and 150 staff
- Dedicated Technology team
- Member of Kreston International, the 12th largest accounting network in the world.

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Is your company eligible for R&D tax relief?

