

Research and Development (R&D) Incentives



The R&D Tax Relief and Expenditure Credit regimes allow companies undertaking eligible R&D activities to significantly reduce their corporation tax bills, or receive a payable tax credit.

Many businesses perform qualifying R&D activities to stay competitive, unaware they could recoup significant costs through available tax incentives. Equally, in a changing economic climate, claimant companies require the most efficient yet robust way of collating and submitting their R&D claims.

Our team of trusted advisors have experience working with a diverse range of companies across various industry sectors, advising them on the best way to claim R&D tax relief.

Eligibility criteria

Basic conditions to be aware of before claiming:

- The company must be subject to UK Corporation Tax.
- The claim is made within 24 months of Year End.

- The company must be a Going Concern, even if making claims retrospectively.
- The company must have carried out R&D activities related to the trade of the company, or a trade the company is preparing to operate.
- R&D qualifying expenditure must be:
 - Revenue in nature.
 - Included in company's profit/loss accounts, or:
 - Capitalised as intangible asset on the balance sheet.
 - Deductible in the period.

Note, the R&D scheme excludes capitalised tangible fixed asset expenditure.

For claim periods beginning on or after 1 April 2023, the company must either have submitted a pre-notification within 6 months following year end OR be exempt from the requirement to pre-notify HMRC.

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R&D Schemes

SME and RDEC

The R&D scheme available to a company is selected based on whether it is classified as an SME or a Large Company. Companies must consider and include group and shareholding structures when assessing its size status for R&D tax purposes

SME Criteria:

- Less than 500 employees, and either;
- Less than €100m turnover; or;
- Less than €86m balance sheet assets.

Where a company exceeds these thresholds, they are classed as a Large Company for R&D tax purposes.

In recent years, there have been significant changes to the rates of benefit available under both the SME and RDEC regimes. Consequently, under the SME regime, the effective rate of benefit available to companies ranges between ~19-33% (depending on the company's profit/loss position and the accounting period start and end date) of total qualifying expenditure identified. For large companies, above the line (pre tax) benefit ranges between 13-20%, yielding net benefit ranging between ~10.5-15% (subject to company's accounting period start and end date) of total qualifying expenditure.

R&D Intensive scheme for loss-making SMEs

This regime allows eligible companies to surrender losses in lieu of a 14.5% credit (as opposed to the less generous 10% credit allowable for expenditure incurred after 1 April 2023).

SMEs must demonstrate that their R&D expenditure is $\geq 40\%$ of their total expenditure to qualify for the R&D intensive credit. From 1 April 2024, this threshold decreases to $\geq 30\%$ of total expenditure.

Merged Scheme

The merged scheme combines the two existing schemes into a single RDEC scheme, and comes into place for all claimants for accounting periods beginning on or after 1 April 2024.

This scheme will operate in parallel to the R&D Intensive SME scheme, and provides a single rate of relief for all companies regardless of size (i.e. 20% above the line, similar to the RDEC regime).

The merged scheme also brings new restrictions on international subcontracting and externally provided workers, and introduces new rules on claiming subcontracted and subsidised R&D.

Definition of R&D for tax purposes

For a project to be classed as 'R&D' for tax purposes, it must meet the definition outlined in the [DSIT \(formerly BEIS\) guidelines](#).

In summary, a project must demonstrate that it meets two key criteria:

- 1 The project must seek to achieve an advance in science or technology.
- 2 The project must seek to overcome scientific or technological uncertainty.

Qualifying Expenditure

- **Staff**
Salaries, bonuses, secondary class 1 NIC's, pension contributions.
- **Consumables**
Materials used up or transformed as part of the R&D activity, including utilities.
- **Sub contractor**
Subcontracting activities that are part of the R&D activity (restrictions applicable, subject to company size and location of subcontractor).
- **EPW**
Contract staff provided by third party staff provider or connected group entity, directly involved in R&D activities and subject to the company's right of supervision, direction and control.
- **Software**
Licences used as part of the R&D project (note, cloud and data licence costs are only eligible for accounting periods starting on, or after, 1 April 2023).

Submission requirements

Additional information form (AIF)

The submission criteria for R&D claims has recently changed as of 1 August 2023, with a more formalised process now in place in the form of the AIF (Additional Information Form).

The AIF is a digital form that must be submitted prior to, or at the same time, as the Corporation Tax Return (failing which, HMRC reserve the right to exclude the claim from the company's returns in entirety). The form requires key information regarding the claim, such as technical narratives that illustrate examples of eligible R&D activities, including:

- 1 The baseline knowledge prior to the commencement of the development.
- 2 An explanation of what the scientific or technological advance sought was.
- 3 A summary of the uncertainties involved.
- 4 An explanation of how the uncertainties were overcome.
- 5 A breakdown per project of the expenditure being claimed for.

When claiming 3 or fewer projects, the AIF must provide these details for all projects. Where claiming 4 or more, the AIF must provide these details for projects covering at least 50% of the total expenditure being claimed (with a minimum of 3 covered in total). For companies undertaking more than 10 projects, a different approach may be required to ensure reasonable coverage.

Pre-notification

For accounting periods starting on or after 1 April 2023, a pre-notification requirement is in place for claimants who have not made any previous R&D claims, or the claims made via an amendment during specific dates. The pre-notification requires a brief overview of the projects undertaken and to be claimed for. **This must be made within 6 months of the accounting period end.**

Why MHA?



We have extensive experience in securing R&D relief for clients across all sectors, most recently including engineering, pharmaceutical, healthcare, software and biotechnology and renewables.



We are part of one of the world's top 9 international networks as the UK member of Baker Tilly International: we can leverage the experience of the wider global network to provide a truly integrated R&D service offering.



We are ambitious for our clients; our team leverage their technical expertise and industry acumen to optimise your claim and streamline investment of your time.



We're commercially minded, and we see our role as adding value and improving your bottom-line.



We believe the only way to achieve long-term growth is to constantly evolve; we lead to build a more fair and sustainable future together.



We build unparalleled relationships with our people, clients, and networks; founded on integrity and trust.

i Get in touch



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Kanika has a wealth of expertise in the fields of technology and financial services, underpinned by a strong background in computer science and an MBA. Kanika leads the R&D team at MHA and has a range of industry knowledge spanning Financial Services, Fintech, Technology, Media and Telecommunications (TMT), Retail, Manufacturing, Agriculture, Construction, Healthcare, Life Sciences, Automotive, and Engineering.



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Jay has a background in Chemistry and industry experience, he brings over 8 years of advisory expertise, collaborating with businesses across the Science, Engineering, and Software sectors.



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Lee's focuses on Research & Development and other tax geared incentives as well as corporation tax. He has particular expertise in life sciences, civil engineering, construction, food science, agriculture, aerospace and software sectors.



Jenny Trunks

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Jenny has over 20 years of experience working in corporate and personal tax, and specialises in R&D tax relief. She works with a wide range of clients in the manufacturing and engineering, technology, agriculture, life sciences and energy and industrial sectors.



Scott London-Hill

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With a Bachelors' degree in Mechanical Engineering, Scott is experienced in helping innovative companies maximise their financial opportunities through strategic tax incentives, specialising in R&D Tax Credits, Patent Box and VGTR.

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