

R&D

YOUR GUIDE TO SUCCESSFUL CLAIMS





WELCOME

In the past few months, the landscape of R&D tax relief claims in the UK has undergone significant changes. Several reforms to the claim submission process were introduced by HMRC to streamline the process of claiming, in an attempt to tackle abuse and improve compliance. Recent adjustments to the submission process for R&D tax relief claims in the UK have caught many companies off guard. And the consequences are significant, with nearly half of all recent claims submitted being subjected to further enquiries by HMRC.

In addition, the new R&D intensive scheme could create difficulties for companies when predicting whether or not they are going to be “R&D intensive”.

For accounting periods starting on or after April 1, 2024, SMEs will have to decide whether to claim under the merged or intensive scheme, and if R&D work is subcontracted, they will need to decide which company can make a claim going forward.

Companies will need professional advice to ensure this calculation is made correctly and avoid under or over-claiming.

Jon Miles, tax director

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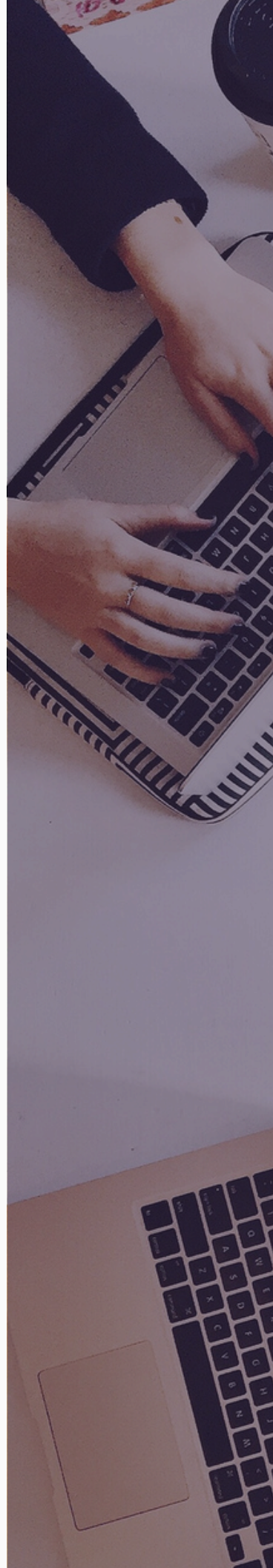
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1. UNDERSTANDING PRE-NOTIFICATION

WHAT ARE THE RULES?

If you're planning to claim Research and Development (R&D) tax relief or expenditure credit for accounting periods beginning on or after 1 April 2023, you must submit a pre notification form if:

1. you're claiming for the first time or
2. your last claim was made more than 3 years before the last date of the claim notification period.

You may need to submit a claim notification form for 2 consecutive accounting periods in certain circumstances.

WHAT ARE THE RISKS IF YOU DON'T COMPLY?

HMRC have confirmed that if the Advance Notification Form is needed but not completed, this renders the R&D claim invalid and, if shown in the corporate tax return, it will be removed by HMRC as an 'error'. It will also disallow any new claim relating to the same expenditure.

So it is now vitally important that your submissions are fully compliant and eligible at the first review stage, or you will lose your right to submit a claim.

See next page for your pre-notification checklist...



2. PRE-NOTIFICATION CHECKLIST

To ensure your company doesn't fall foul of the new pre-notification requirement for R&D tax relief claims, the claim notification form should contain the following:

- The company's unique taxpayer identification (UTR)
- The main internal R&D contact person in the company overseeing the R&D claim.
- The contact details of any agent assisting with the R&D claim.
- The start and end dates of the accounting period for which you're claiming tax relief or expenditure credit.
- The accounting period's beginning and end dates.
- A summary of the key planned projects, demonstrating how these activities align with the standard definition of R&D.



3. UNDERSTANDING THE ADDITIONAL INFORMATION FORM

WHAT ARE THE RULES?

As of August 8, 2023, all R&D relief claimants are required to complete an Additional Information Form (AIF) alongside their claims. The AIF includes details of qualifying expenditure and contact details for the main R&D contact at the company and any agent involved in the claim. Failure to include this form renders the claim invalid.

WHAT ARE THE RISKS IF YOU DON'T COMPLY?

It's now vitally important that your submissions are fully compliant and eligible at the first review stage, or you will lose your right to submit a claim.

HMRC have confirmed that if the AIF is not completed and submitted before your company's Corporation Tax Return, your R&D claim will be removed and recorded as an error by HMRC, as is the case with the Advance Notification Form.

See next page for your AIF checklist...



4. AIF CHECKLIST

- Your company information:**
 - Unique Taxpayer Reference (UTR), this must match the one shown in your Company Tax Return
 - employer PAYE reference number
 - VAT registration number
 - business type, for example your current SIC (Standard Industrial Classification) code

 - Contact details:**
 - the main senior internal R&D contact in the company who is responsible for the R&D claim, for example a company director
 - any agent involved in the R&D claim

 - Accounting period start and end date**
 - The accounting period start and end date for which you're claiming the tax relief, this must match the one shown in your Company Tax Return.

 - Qualifying expenditure details**

If you meet the conditions, you can claim for either or both:

 - **tax relief as a small and medium-sized enterprise (SME)**
 - **expenditure credit as a large company or SME**

If you're claiming for SME tax relief, you can claim for:

 - cloud computing costs, including storage, for accounting periods beginning on or after 1 April 2023
 - consumable items, for example materials, water, fuel and power
 - data licence costs, for accounting periods beginning on or after 1 April 2023
 - externally provided workers
 - payments to participants of a clinical trial
 - software
 - staff
 - subcontractor costs

If you're claiming for expenditure credit, you may be able to claim for:

 - cloud computing costs, including storage, for accounting periods beginning on or after 1 April 2023
 - consumable items, for example materials, water, fuel and power
 - contributions to independent R&D costs
 - data licence costs, for accounting periods beginning on or after 1 April 2023
 - externally provided workers
 - payments to participants of a clinical trial
 - software
 - staff
 - some subcontractor costs
-



AIF CHECKLIST (CONT)

Qualifying indirect activities

These are activities which form part of a project but do not directly contribute to the resolution of the scientific or technological uncertainty.

Only include the qualifying expenditure detailed in the section 'Qualifying expenditure details', if it was incurred on the following qualifying indirect.

- scientific and technical information services, insofar as they are conducted for the purpose of R&D support, such as the preparation of the original report of R&D findings
- indirect supporting activities such as maintenance, security, administration and clerical activities, finance and personnel activities, insofar as undertaken for R&D
- ancillary activities essential to the undertaking of R&D, for example, taking on and paying staff, leasing laboratories and maintaining R&D equipment including computers used for R&D purposes
- training required to directly support an R&D project
- research by students and researchers carried out at universities
- research (including related data collection) to devise new scientific or technological testing, a survey or sampling methods, where this research is not R&D in its own right
- feasibility studies to inform the strategic direction of a specific R&D activity

Project details

- The number of all the projects that you're claiming for in the accounting period and their details.

If you're claiming:

- for 1 to 3 projects, you need to describe all the projects you're claiming for that cover 100% of the qualifying expenditure
- for 4 to 10 projects, you need to describe those projects that account for at least 50% of the total expenditure, with a minimum of 3 projects described
- for 11 to 100 (or more) projects, you need to describe those projects that account for at least 50% of the total expenditure, with a minimum of 3 projects described – if the qualifying expenditure is split across multiple smaller projects, describe the 10 with the most qualifying expenditure



5. ADDITIONAL TAX RELIEF AVAILABLE FOR “R&D INTENSIVE” SMES

The rules governing the new single merged scheme and the R&D Intensive SME scheme became legislation at the end of February 2024, and it was confirmed that the current RDEC and Small and SME schemes will be merged from 1 April 2024.

Under the new single merged scheme, relief is given via a taxable above-the-line expenditure credit, which will be implemented at the current RDEC rate of 20%.

THIS UNIVERSAL RATE WILL BE APPLIED TO ALL SIZES OF COMPANIES - WITH THE EXCEPTION OF LOSS-MAKING SMES THAT ARE “R&D INTENSIVE”.

The new single scheme was billed by the government to be a simplification of the existing separate schemes by bringing SMEs and Large Companies under the same rules. However, the introduction of the R&D Intensive SME scheme means that there will still be two schemes, and for a temporary length of time, three schemes, running in parallel, creating complexities that we advise companies to seek immediate professional advice on.

THE R&D INTENSIVE SME SCHEME WILL BE BROUGHT IN TWO PHASES:

- For expenditure incurring on or after 1 April 2023: Loss-making SMEs with an R&D intensity of 40% or higher (based on company expenditure over latest 12 months of accounts) will be able to claim an R&D tax credit at a rate of 14.5% instead of the standard 10%. This will mean the maximum rate claimable will be roughly 27% compared to 18.6% for non R&D intensive SMEs.
- For accounting periods beginning on or after 1 April 2024: The same rate of relief applies but the R&D intensity test is reduced to 30%.



6. HOW WE CAN HELP

Navigating the evolving rules and regulations of R&D tax relief claims can be complex, but you don't have to go it alone.

At Richardson Swift our advisers work with specialist partners to ensure we can help your company manage the entire process, from identifying eligible projects to pre-notification and claim submission. Our expert team can help you maximise your tax relief benefits while ensuring full compliance with HMRC requirements.

If you have any questions relating to R&D tax relief or wish to discuss the implications of recent changes to the R&D tax relief scheme on your own claims, please get in touch with the tax team.

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We're here to help!