

## R&D HELPSHEET

### Qualifying Criteria (High-Level):

#### 1. Work to advance science or technology:

The company must be trying to achieve an advance in overall knowledge or capability in a field of science or technology. This means creating or improving products, processes, or services beyond what is already publicly known.

#### 2. Overcoming scientific or technological uncertainty:

They face challenges that cannot be easily solved by a competent professional — meaning the solution is not obvious or readily deducible by an expert.

#### 3. Systematic investigation:

The work involves planned and methodical activity/experimentation or analysis, not just routine or cosmetic changes.

#### 4. Directly related to the company's trade:

The R&D must relate to the company's current or intended trade.

### Indicators That a Company May Qualify:

- Developing new or improved products, software, or processes.
- Using or experimenting with new technologies or materials above that which would be considered routine modifications or routine experimentation.
- Creating prototypes or conducting technological/scientific feasibility studies.
- Facing technological/scientific challenges that require more than routine testing or routine trial and error.
- Engaging in innovation that has not been done before in their industry.
- Incurring costs on staff time, consumables, software, or subcontractors/consultants directly linked to development work pertaining to overcoming the technological/scientific uncertainties corresponding to seeking an advancement.

### Types of Companies Likely to Qualify:

- Tech/software developers working on new platforms, AI, machine learning, or advanced algorithms. pushing boundaries in digital services, apps, or hardware.
- Manufacturing firms developing new or improved products or production methods.
- Engineering or construction companies solving technical design challenges or onsite practical application challenges which are above routine industry standards.
- Scientific research organizations.
- Businesses in biotech, pharmaceuticals, or advanced materials.

If unsure, companies that are investing in development projects or innovation and have technical teams working on challenges beyond routine updates. These are prime candidates for R&D tax relief.

### Red Flags – Companies Likely NOT to Qualify:

- Only improving aesthetics or marketing features without technical innovation.
- Routine testing, maintenance, or quality control without advancing technology.
- Projects where the solution is already known or easily deducible by other experts in the same field.
- Purely commercial or financial research without technological uncertainty.
- Companies with no clear records of technical advancements being sought coupled with the corresponding technical challenges or experimentation.

### Qualifying R&D Costs

- Staff Costs = Salaries, employer National Insurance, and pension for R&D-focused staff
- Consumables = Materials, chemicals, utilities (power, water) used in R&D
- Subcontractors = External specialists contracted for R&D tasks (for accounting periods starting on 1 April 2024 onwards, subcontractor costs will only be eligible if it is with a UK company (exceptions apply))
- Software & Cloud = Software licenses, hosting, or cloud costs used primarily for R&D
- Externally Provided Workers (EPW)= Temporary or agency workers under your supervision (for accounting periods starting on 1 April 2024 onwards, EPW costs will only be eligible if it is with a UK company (exceptions apply))
- Clinical Trial Volunteer Costs
- Pure Mathematics - For accounting periods beginning on or after the 1st April 2023. this benefits developing industries in which the UK has a competitive advantage, such as Artificial Intelligence, quantum computing and robotics. It will also support strong business sectors like manufacturing and design.

### Claim notification form (CNF)

- For claims pertaining to accounting periods starting from 1 April 2023 onwards, a company must submit a CNF the 1st day of the accounting period to 6 months after their period-end.
- e.g. an AP runs from 1 July 2023 to 30 June 2024 (12 month period); the CNF may be submitted from the first day – 1 July 2023 or no later than 31 December 2024 (6 months from the end of the AP). If the 6 months from the end of the AP has elapsed and the company does not meet the exceptions criteria, then any R&D tax relief claim within the company tax return for that period will fail. See attached document which captures the claim notification information required by HMRC before any claim is made in the tax return.

### PAYE cap

- For accounting periods beginning on or after the 1st of April 2021, the PAYE and NIC cap has been introduced to prevent fraudulent R&D claims from companies that are not engaged in genuine UK R&D activities.
- The goal of the PAYE cap is to stop companies with little or no employment in the UK from channelling funds through the country to access R&D tax relief.
- Essentially, it keeps the focus of the tax relief on supporting genuine innovation in the UK.
- The amount of R&D tax credits that are payable is capped at £20,000 plus 300% of the company's relevant PAYE and NIC liabilities. This generous structure is designed to support genuine R&D activities without allowing for exploitation. For example, your company has PAYE and NIC liabilities of £200k. the R&D Tax Credit Cap = £20k + (300% \* £200k) = £620k. therefore the maximum you can receive in R&D tax credits is £620k anything above this will be carried forward losses (scheme rules will dictate the carry forward such as ERIS)
- In the merged R&D and SME scheme, the cap limits the amount of credit payable within the accounting period in which it's claimed. If your claim exceeds the companies calculated cap, the surplus is carried forward and treated as an R&D expenditure credit in future periods. This means you can offset it against future corporation tax liabilities.
- However, in the ERIS scheme, the cap does not allow excess amounts to be carried forward and claims above the PAYE cap are deemed invalid.
- It is also important to note that the RDEC scheme operates under different rules regarding how PAYE/ NIC liabilities impact credit amounts. Specifically, the RDEC scheme does not utilise the same 'carry forward' mechanism for excess credit as is present within the merged, SME and ERIS scheme. While not a cap in the same way as the current rules, the amount of RDEC credit payable could be restricted based on a company's PAYE and NIC liabilities.
- A company with no payroll (no staff and thus no PAYE/NICs) will therefore only receive a maximum of £20k in R&D tax credits with any remaining tax benefit carried forward to offset future profits.

### Accounting periods beginning before 1 April 2024

- For accounting periods that start before 1 April 2024, the Research and Development Expenditure Credit (RDEC) and Small-Medium Enterprise (SME) schemes apply.
- If your accounting period is before 1 April 2024 and your business has fewer than 500 staff with a turnover under €100m or a balance sheet total under €86m, you'll likely claim through the SME scheme. Larger businesses with 500+ staff and turnover above €100m will likely claim through the RDEC scheme; (Other factors also can decide whether you can claim under RDEC or SME).
- The RDEC rate increased from 13% to 20% for expenditures made on or after 1 April 2023.
- From 1 April 2023, the amount of SME R&D additional deduction fell from 130% to 86 % of qualifying expenditure. The rate at which losses could be surrendered in return for a cash (R&D tax credit) reduced from 14.5 % to 10 %.

### Accounting periods starting on or after 1 April 2024

The government has introduced a 'merged R&D Expenditure Credit scheme' (Merged RDEC) plus an 'Enhanced R&D Intensive Support' (ERIS) scheme for R&D-intensive loss-making SMEs.

- **Merged R&D Expenditure Credit** Default for all companies doing qualifying R&D for Accounting periods (APs) 1 April 2024 onwards.
- **Enhanced R&D Intensive Support (ERIS)** Loss-making SMEs with at least 30% of total costs as R&D. you must meet the intensity conditions. Prior to Aps starting on or after April 1, 2024, an SME needed to have R&D expenditure of at least 40% of its total expenditure to qualify for enhanced R&D intensive support. 86% enhanced deduction applies and the Losses can be surrendered for 14.5% credit.

### Other Major changes affecting accounting periods starting on or after 1 April 2024 onwards

- **Claim notification form (CNF)** [for Aps starting on or after 1 April 2023 onwards]
- **New Merged scheme:** with an RDEC rate of 20% for all claim APs starting from 1 April 2024 onwards (unless they meet the intensive R&D criteria)
- **Intensive R&D scheme:** Enhanced R&D Intensive Support (ERIS) for Loss-making SMEs who meet the intensity conditions.
- **Overseas contractors:** Starting from the 1st of April 2024 onwards for APs, expenses related to overseas subcontractors and externally provided workers (EPWs) will no longer be eligible for R&D tax credits, provided the work is conducted outside the UK. The key requirement is that the R&D activities must be carried out physically within the UK, regardless of the nationality of the subcontractor or EPW.
- **Changing eligibility on subsidised projects:** The government has lifted restrictions on claiming R&D tax relief for subsidised projects, effective from APs starting on the 1st of April 2024. Prior to this, SMEs could only claim relief on subsidised projects under the RDEC scheme, which provided less generous relief than the SME scheme. With this change, the way a project is funded no longer affects the amount of relief a business can claim, for example, an R&D project where a business has received grant funding.
- **Subcontracted R&D:** The new guidance clarifies that the right to claim R&D Tax Relief rests with the company that decides to undertake the R&D, whether under the merged RDEC scheme or the enhanced R&D intensive support. While subcontractors or contractors may sometimes be eligible, the claim depends on whether the work qualifies as contracted-out R&D. This change ensures the relief targets the businesses making the R&D investment decisions, which aligns with the scheme's goal of reducing the risks and costs of innovation.

### The new guidance addresses relationships between:

- A customer – the company that outsourced work to a third-party
  - A contractor – the company that performs the outsourced work
- In the legislation, the term 'subcontractor' refers to work performed on behalf of a contractor. However, in reality, people use subcontractor to mean contractor.

**Tests are performed to see who meets the criteria and can make a claim. (if it is unclear we recommend companies to seek tax advice pertaining to this point)**

## 6 Step - Process for making an R&D tax relief claim

Making a R&D tax credits claim may seem daunting but breaking it down into manageable steps helps. Here is an overview:

1. Identify your R&D projects Pinpoint the projects that meet HMRC's definition of R&D.

2. Choose the right scheme

3. Submit a claim notification form (CNF), if required.

4. Complete the Additional Information Form

Introduced in August 2023, the Additional Information Form (AIF) is now mandatory for every R&D tax claim. It summarises your R&D expenditure, the nature of your projects, and key details like the main "competent professionals."

5. Prepare an R&D claim report

Although HMRC does not mandate a technical "report," it's strongly recommended. This document explains your R&D from the AIF in detail and can significantly reduce the risk of an enquiry.

6. File or amend your CT600 + CT600L

- Incorporate the R&D figures (enhanced costs, credit calculations) into your Company Tax Return (CT600).
- Use the CT600L pages to detail your R&D claim under SME, RDEC, or the merged schemes.
- If all goes well, HMRC will process and approve your claim, issuing you with either a reduced Corporation Tax bill, losses to carry forward to offset future profits or a direct cash payout either by way of a refund for overpaying corporation tax or surrendering losses for cash.