

AUDIT • TAX • ADVISORY



In partnership with  
**manufacturing**  
**+ engineering**<sub>week</sub>

# R&D Tax Relief - The Facts, Common Misconceptions & Benefits

Engineering Expo – NEC Birmingham June 2022

Jay Bhatti MEng MPhil – R&D Tax Senior Manager



An independent member of  
**bakertilly**  
INTERNATIONAL



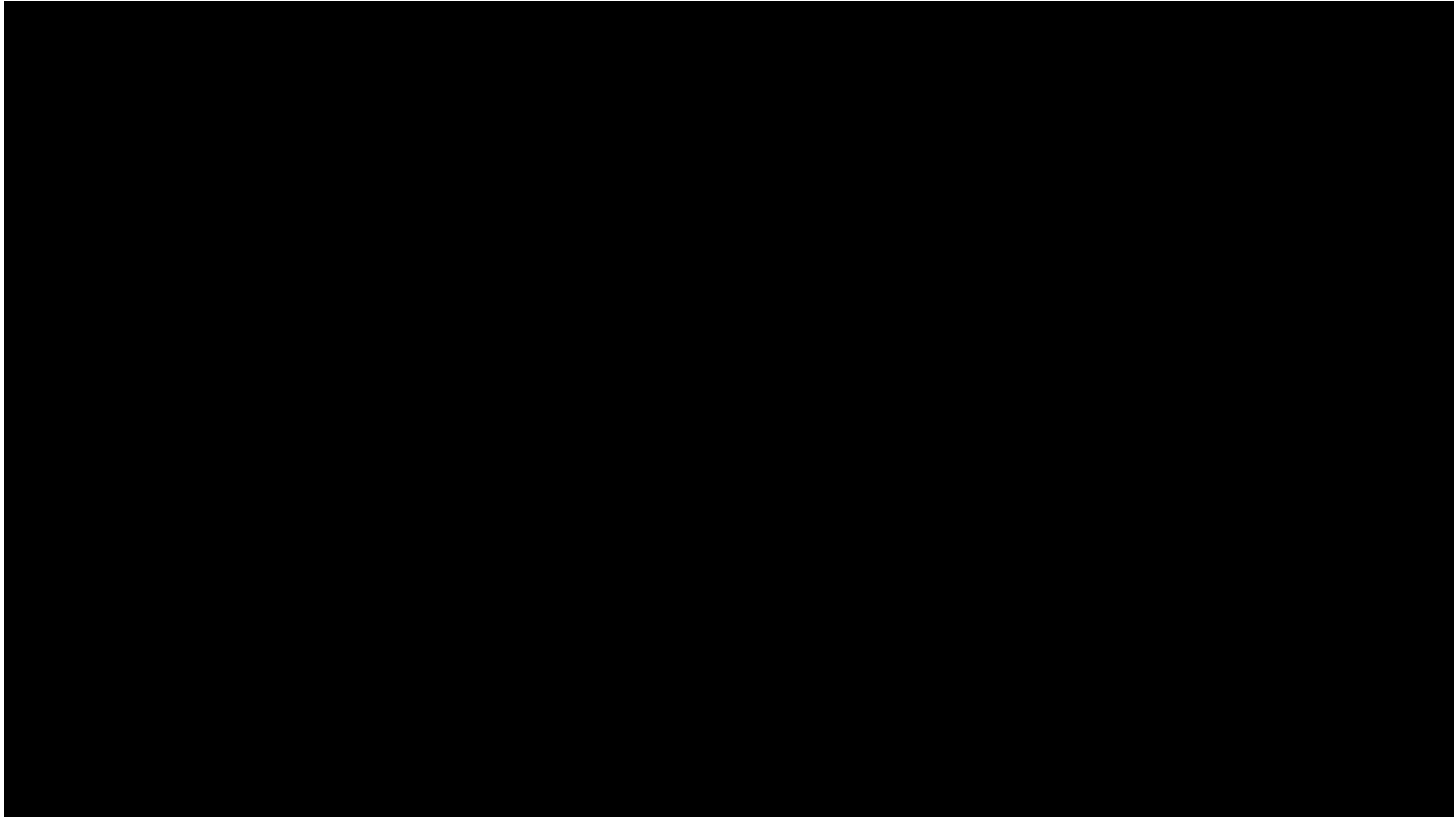
# Agenda

1. Eligibility Criteria
2. The meaning of R&D for Tax Purposes
3. Common Misconceptions & Upcoming Changes
4. Benefits of the R&D schemes



# What difficulties are manufacturers facing with R&D







# Key advantages of the UK Scheme

- **It does not matter:**
  - If the work was not successful, all that matters is that **your team attempted to solve problems through engineering;**
  - If a competitor has developed something similar – **that is their trade secret;**
- **You can claim for emergent work**
  - i.e. problems that were not foreseen
  - You can claim for problem solving – that is not thought of as R&D conventionally;



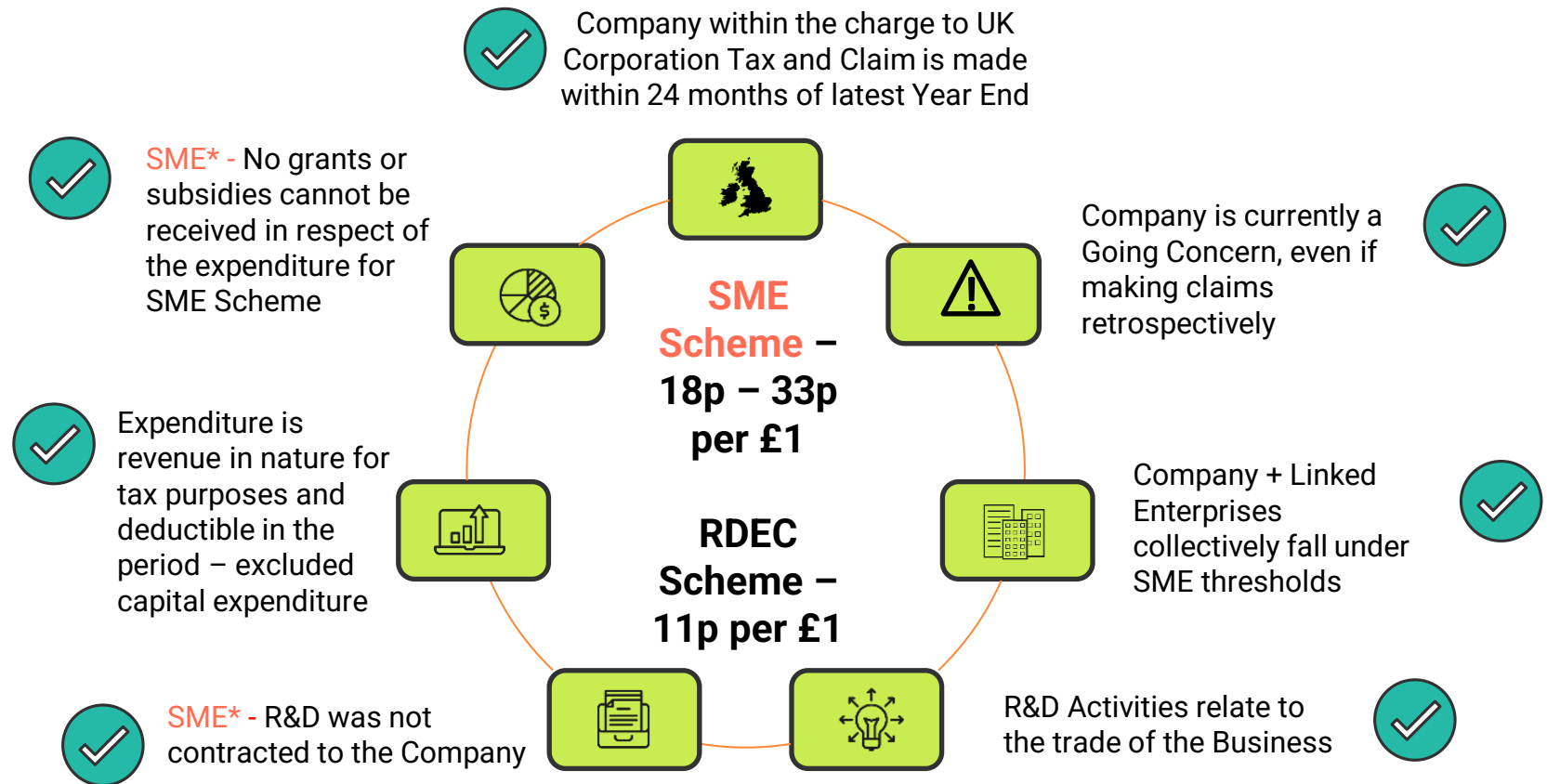
**Eligibility Criteria:  
Basic Conditions to  
be Aware of Before  
Claiming**





# R&D Tax Relief Eligibility Criteria

Basic conditions that were checked before claiming





# Complex Areas the Need Care

## Subcontracted R&D

Factor	Confirm for SME Scheme
Lead Competent Professionals	✓
Technical and Financial risk borne solely by Company	✓
Degree in autonomy in the works	✓
Ownership of the IP	✓

## Subsidised R&D

Factor	Confirm for SME Scheme
There is no link between the payment received and the qualifying expenditure	✓
R&D was emergent and was not foreseen by the contract	✓





# R&D – Misconceptions on Eligibility to Claim

## “Project was too commercial”

- The project was
- ‘commercial’ and therefore can’t be claimed

## “We subcontracted the work”

- We paid other people to help us with the work.

## “We don’t hold the IP”

- We can’t claim because we don’t hold intellectual property

## “We don’t track R&D”

- We are paid for our work so we can’t claim

## “Project failed”

- Other companies in our industry have created the same product, our product is nothing new so we can’t claim

## “This is everyday work”

- Problem Solving is part of our everyday work

## “Already claimed for R&D”

- Other companies in our industry have created the same product, our product is nothing new so we can’t claim

## “This is a Tax Loophole”

- We are uncomfortable with reducing Corporation Tax and Cash Credits



# Applying the Legislation:

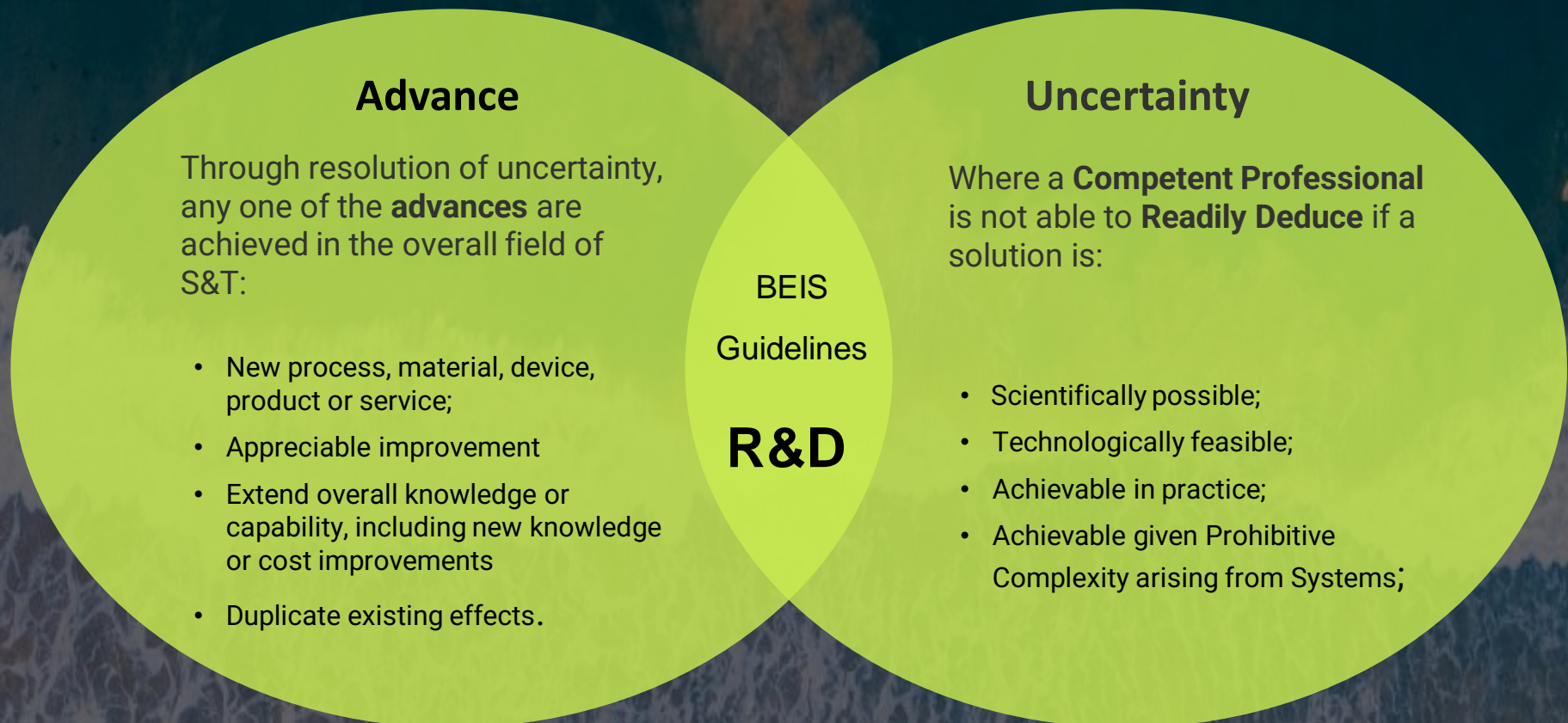
R&D for Tax Purposes –  
HMRC is **Re-Iterating** the Importance of  
Applying this Correctly

# How R&D activities are defined -

It is not enough anymore just to show HMRC that the project was complex or bespoke, need to show that IP goes beyond the Baseline.



R&D takes place when a project seeks to achieve an advance in science or technology through the resolution of scientific or technological uncertainty.



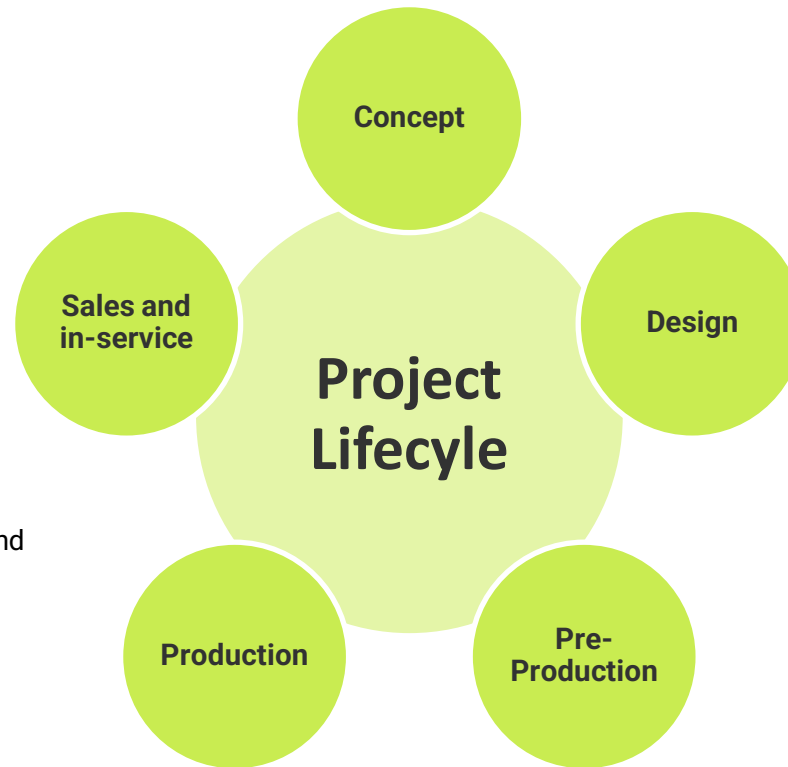


# R&D in the Development Lifecycle

- Investigation and development of new technologies, materials and concepts
- Safety and environmental considerations

- Management Systems / stock management system development and integration
- Fault and manufacturing defect rectification
- In-life servicing developments

- Production efficiency, reliability and throughput improvements
- Material and component change integration
- Retooling
- Production trials and scale-up



- Ensuring design vision is feasible and economical
- Production system development
- Efficiency improvements

- Development or adaptation of manufacturing processes and technology
- Process-line automation and consolidation
- Tolerance and quality improvements



# Scheme Benefits and Upcoming Changes





# Eligible Cost Categories

## Staff

Employees and Directors

Salaries, bonus, secondary class 1, NIC's, pension contributions

## Consumables

Material scrapped, prototypes

Utilities

## Sub-contractor (SME only)

Subcontracting activities that are part of the R&D

Usually paid through invoices

## EPW

Contract staff provided by third party staff provider

Not an employee or Director

Subject to supervision, direction and control

## Software

Software, Licenses



# Scheme Benefits – SME (profit making)

£1M eligible R&D spend example

SME  
scheme

130% extra deduction from accounting year profit.

Current Corporation Tax Rate = 19%

**Example calculation:**

£100,000 (eligible spend)  
x130% (enhancement rate) = **£130,000**

Taxable Profit before R&D = £500,000  
Tax Liability before R&D = £500,000 X19% = **£95,000**

Taxable Profit LESS R&D = £500,000 - £130,000  
Revised Taxable Profit = £370,000  
Revised Tax Liability = £370,000 X19% = **£70,300**

**Taxable Savings** = £95,000 – 70,300 = **£24,700**

**Benefit:**

= 24.7p back from HMRC  
for every £1 spend.

# Scheme Benefits – SME (loss making)



£1M eligible R&D spend example

SME  
scheme

## 3 options:

### 1. Surrender enhanced losses

...for a tax credit (cash), currently at 14.5%.

#### Example calculation:

£100,000 (eligible spend)  
x130% (enhancement rate)  
= **£130,000**

£100,000 + £130,000 (enhancement)  
= **£230,000** (enhanced expenditure)

£230,000 x 14.5% (surrender rate)  
= **£33,500 net benefit**

### 2. Carry back losses

If profit making in previous period and paid tax.

### 3. Carry forward losses

To offset against future financial year profits.

## Benefit:

= 33.5p back from HMRC  
for every £1 spend.



# Scheme Benefits – RDEC



## £1M eligible R&D spend example

RDEC  
scheme

### Enhancement rates:

- 13% (1 April 2020 onwards)

### Example calculation:

£1,000,000 (eligible spend)  
x13% ( @April 2020 enhancement rate)  
**= £130,000**

-19% (Corporation Tax rate)  
**= £105,300 net benefit**

Benefit is the same regardless of profit/loss tax position.

- Reducing tax liabilities if profit making.
- Payable as cash benefit if loss making.

### Benefit:

≈ 10.53p back from HMRC  
for every £1 spend.



# Recent & Upcoming Changes

- SME tax credit limited to £20,000 + 3x total PAYE NIC contributions. This is active for accounting periods starting after 1 April 2021.
- Legislation for software category expanded to include cloud computing and data costs.
- International subcontracting costs to be restricted.
- Ongoing consultation on the SME scheme by HMRC.

# Any questions?

**Your R&D Specialist Team:**

**Jay Avraj Bhatti**

MEng MPhil

Senior R&D Tax Manager

E: [jay.Bhatti@mhllp.co.uk](mailto:jay.Bhatti@mhllp.co.uk)

**Now, for tomorrow**

 @MHA UK

 @MHA\_UK

[Mha-uk.co.uk](http://Mha-uk.co.uk)

