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R&D Tax Relief, the latest
May 2023

R&D (Research & Development) tax relief can provide valuable financial support to a qualifying business that is investing in innovation and developing new products, services or processes.

However, exactly how the R&D tax relief regimes works is not for the faint-hearted.

The latest R&D tax changes came into force in April 2023, and further changes are planned for April 2024. It's important that business owners that have in the past claimed R&D tax relief review these latest, and planned, changes as for many of our clients they are proving to be business critical.

R&D Tax, the latest

The first point to note is that where R&D claims have historically always been beneficial with the increase in corporation tax rates to 25% they will be increasingly important.

Below is a brief summary of the main changes. However, one of the most urgent points to be aware of is the advance notification of claims for periods that start on or after 1 April 2023.

Benefits of R&D claims

There are two different types of claims

- SME (for smaller companies and used by most of our client); and
- RDEC normally for large companies or where the projects have been funded by grants.

SME R&D Tax Relief claims

The SME claims work on the basis that an additional deduction is provided in the tax computation, which will either reduce the tax payable or increase the tax losses.

The related tax losses can be surrendered and a cash benefit obtained.

For periods up to 31 March 2023 surrendering the losses could result in a cash refund of up to 33% of the R&D expenses and it is now reduced to just over 18%. However, for companies that are in an intensive stage of R&D this could increase to nearly 27%.

With the Corporation Tax rate increasing to 25% the benefit to profitable companies is reduced, but not so significantly.

RDEC Tax Relief claims

Under an RDEC claim a benefit of 13% of relevant expenditure could be claimed, although this was subject to corporation tax which reduced any cash received / benefit to 10.7%. This has now been increased to a benefit of 20% which will be 15% after tax.

Basically, the SME scheme is becoming less generous and the RDEC scheme more generous, and going forward, it is likely that the schemes will merge.

Advance warning of R&D claims/Restrictions on time limits

The time limit for making a claim will remain at 2 years after the end of the accounting period, however, claims will have to be notified to HMRC much earlier, and if this is not done then any claim will be invalid for accounting periods beginning on or after 1 April 2023.

A pre-notification form must be submitted within 6 months of the end of the accounting period unless the claim has been made within 6 months of the end of the accounting period or you have made a previous claim within the 3 years preceding the end of the claim period.

As a result many claims will have to be notified and although you do not have to submit a pre-notification form for each project you will have to provide a summary of the high-tech planned activities which will show that it will meet the standard definition of R&D.

This means that pre- notification forms could not be submitted as a precautionary measure but have to be based on known R&D activity.

Additional information requirements

For all claims from 1 August 2023, there are additional information requirements which will need to be submitted separately to the CT600 through an on-line portal.

For most claims there should be a limited impact, but where the company has more than one project or expenses related to indirect activities are included then additional information may be needed. There will be an additional administration burden and details such as, the company VAT Number, SIC Code, a senior R&D contact in the company as well as the Agent name will be required.

A report may also be submitted with the CT600, but the additional information form has to be submitted for the claim to be valid.

Limiting expenditure to the UK

This was expected, but has been deferred until 1 April 2024 which will be of benefit to a number businesses.

Additional eligible costs

Cloud computing and data costs can be included in claims from 1 April 2023 when these are used directly for R&D projects.

We are always happy to answer any questions you may have on R&D Tax Relief.

If you would like to arrange a no obligation meeting with a member of our specialist R&D Tax Team to discuss your project and whether it may be eligible for R&D Tax Relief, please contact us on 020 3697 7147 or email ahutchison@rpgcrouchchapman.co.uk.

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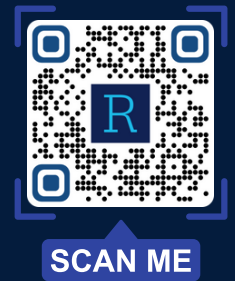
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About Anne

Anne is responsible for Corporate Tax at RPG Crouch Chapman, which includes the compliance for a wide range of groups and companies. Anne has extensive experience in the following areas:

- Research and Development claims (to the maximum value available under both the SME and RDEC schemes) for companies across all industry sectors
- SEIS and EIS claims and advice
- Employee share schemes (including EMI Share Option Schemes)
- Corporate restructuring,
- Tax Due Diligence



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