Your research
Our support
Research & Development Tax Relief in Northern Ireland
This booklet outlines how tax relief for Research & Development (R&D) works for both small and medium-sized enterprises (SMEs) and large companies.

It provides straightforward definitions and explanations of the schemes, details of qualifying costs and guidance on where you can find help and further detailed information.

Northern Ireland Corporate Tax Office website

An electronic copy of this booklet, including any updates, is available online at: www.hmrc.gov.uk/nircto/index.htm
Foreword

Arlene Foster
Minister for Enterprise, Trade & Investment

Forward-thinking companies recognise that investment in Research and Development (R&D) places them in a strong position to exploit future opportunities. It is very encouraging to see an increase in spend on R&D across Northern Ireland, especially by small and medium-sized enterprises (SMEs). Although our largest firms inevitably undertake much of the business R&D in our economy, our SMEs can be amongst the greatest innovators.

Northern Ireland has some outstanding R&D intensive firms across all key sectors. We must continue to build on this and make R&D an integral part of the region’s business culture. Through the development of new products and processes, or the improvement of existing ones, new lucrative opportunities can be opened up that may not otherwise have been available.

Innovation is therefore crucial to Northern Ireland’s growth and the Department of Enterprise, Trade & Investment, working through Invest Northern Ireland and aligned with recommendations advised by MATRIX, is fully committed to helping businesses invest in R&D. Invest NI’s Grant for R&D Programme now makes it much easier for companies to access the financial and advisory support offered. Together with HMRC, we are all working collaboratively to support companies as they seek to create a prosperous economic future for Northern Ireland. I very much welcome HMRC’s new booklet, which is designed to help those Northern Ireland firms involved in research and development take advantage of the R&D Relief available to them.

David Stewart
Head of the Northern Ireland Corporate Tax Office (NIrCTO)

I have introduced this HMRC booklet as an informative guide to help Northern Ireland companies and their professional advisors in claiming R&D Relief. It summarises the main provisions of the schemes and gives guidance on where to find help and more detailed information. The R&D Relief Scheme is a key element of national government policy and is now the largest single source of government support for business R&D. It gives companies the opportunity to recoup some of their investment in new products, processes and designs. It has been acknowledged that, in the past, many companies of all sizes did not appreciate they qualified for the relief. I am pleased to report that already, an increased number of Northern Ireland businesses have benefited from the scheme and those that have claimed found the process easier than expected.

I look forward to continuing to work locally with the Department of Enterprise, Trade & Investment, Invest NI, local professional bodies and companies, to further increase the level of awareness and improve take-up of the relief in Northern Ireland.

David Stewart, Head of the Northern Ireland Corporate Tax Office, and Arlene Foster, Minister for Enterprise, Trade & Investment.
What is R&D Relief?

For tax purposes, R&D takes place when a project seeks to achieve an advance in overall knowledge or capability in the field of science or technology.

R&D Relief allows limited companies, who carry out qualifying R&D of at least £10,000 per annum related to their trade, to claim an extra corporation tax deduction for certain qualifying revenue expenditure.

The level of relief available depends upon which scheme the company falls into.

The SME Scheme

- A company can get relief of 175% (200% from 1 April 2011) on their qualifying R&D costs.
- Loss-making companies can in certain circumstances surrender the losses arising in return for a payable tax credit. This is limited to the PAYE and NICs payable for payment periods ending in the accounting period and where accounts are prepared on a going concern basis.
- For accounting periods ending before 9 December 2009, the company must own any intellectual property that might arise from the project.
- From 1 August 2008 the SME threshold limits have doubled for R&D purposes only.

The Large Company Scheme

- A company can get relief of 130% per cent on their qualifying costs.
- There is no payable tax credit for losses under this scheme.
- There is no need for the company to own the intellectual property arising from the R&D.

Why is the Large Company Scheme important to SMEs?

SMEs may also claim relief under this scheme if they cannot claim under the SME scheme because of a grant or other subsidy (see page 19).

Losses

Unutilised or unsurrendered losses under both schemes may be carried forward and set against future year’s trading profits under the normal corporation tax rules.

Am I small or large?

The diagram below sets out the limits for determining whether the company is a SME. A large company is any company which is not a SME.

Bear in mind the test includes worldwide partner and linked enterprises. There is a handy flowchart at: www.hmrc.gov.uk/manuals/cirdmanual/cird92850.htm if this applies to you.

For R&D purposes only, the Finance Act 2008 extended the SME Relief to larger companies. It introduced the concept of a ‘larger SME’ for expenditure incurred on or after 1 August 2008, by doubling the limits for determining if a company is a SME. A ‘larger SME’ is entitled to R&D Relief under the SME Scheme.

SME Pre 1 August 2008

- Annual turnover not exceeding £50m
- Balance sheet totalising no more than £43m

SME Post 1 August 2008

- Annual turnover not exceeding £100m
- Balance sheet totalising no more than £86m

Annual turnover not exceeding £50m
- Annual turnover not exceeding £100m
- Balance sheet totalising no more than £43m
- Balance sheet totalising no more than £86m

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Employees
Which projects qualify?

Work that advances overall knowledge or capability in the field of science or technology, and projects and activities that help resolve scientific or technological uncertainties, qualify for R&D Relief.

Research and development has a specific statutory definition for the purposes of R&D Relief which is not the same as the commercial meaning.

To qualify for R&D Relief, the company must be carrying out research and development work in the field of science or technology. The relief is not just for ‘white coat’ scientific research but also for ‘brown coat’ development work in design and engineering that involves overcoming difficult technological problems. This can include creating new processes, products or services, making appreciable improvements to existing ones and even using science and technology to duplicate existing processes, products and services in a new way. Some examples of qualifying activities include software development, engineering design, new construction techniques, bio-energy, cleantech, agri-food and life and health sciences.

See also the examples for some of the local industry sectors at page 25 onwards.

Does the company’s project qualify?

- R&D takes place when a project seeks to achieve an advance in science or technology.
- This advance must extend the overall knowledge or capability in the field of science or technology, not just the company’s own state of knowledge or capability.
- It must involve an uncertainty that competent professionals can’t readily resolve and where solutions aren’t common knowledge.
- Pure product development in itself will not qualify.
- R&D work for tax relief purposes begins when work to resolve the uncertainty starts, and ends when that uncertainty is resolved or the work to resolve it ceases.

See the ‘Possible commercial project time line’ on pages 10-11 which helps to illustrate the qualifying and non-qualifying activities within a ‘whole life’ project plan.

Judging which projects and activities will qualify for R&D Relief is usually the area where most people seek help and experience has shown that companies can benefit from HMRC’s early involvement. See also:

www.hmrc.gov.uk/manuals/cirdmanual/CIRD81900.htm

If you are in doubt contact the Northern Ireland Corporate Tax Office (NIrCTO) who will liaise with the appropriate R&D Specialist Unit.

Note

It is particularly important that the people doing the work are involved when considering whether the project is R&D for tax purposes as they are the ones who understand best the scientific or technological problems involved. They should focus on what advances the project is seeking to achieve and the uncertainties to be faced rather than on the eventual product aspiration, specification or design.
Possible commercial project time line - defining R&D for tax purposes

See also the Local Industry Sectors at page 25 onwards for examples of how this may apply to some of the local Northern Ireland industry sectors.

The parts of a project that require R&D activity to resolve scientific or technological uncertainties qualify for tax relief. The qualifying work starts when work to resolve the uncertainty starts, and ends when the new knowledge is codified in a usable form, or when work to resolve the uncertainty ceases.
What costs qualify?

Direct and externally provided staff, subcontracted R&D, consumables, software, trials, prototyping and independent research costs may all qualify for R&D Relief. Capital expenditure does not qualify under this scheme, nor does expenditure on the production and distribution of goods and services.

Direct R&D staff costs
You can claim for salaries, wages, class 1 NIC and pension fund contributions for staff directly and actively engaged in the R&D project. This covers employees who undertake ‘hands on’ R&D work and the proportion of supervisory and managerial time spent specifically directing such employees in those activities.

Support staff costs, for example administrative or clerical staff, do not qualify, except to the extent they are engaged in the ‘qualifying indirect activities’ listed in the DTI guidelines (this organisation is now known as BIS, the Department for Business, Innovation & Skills).

www.hmrc.gov.uk/manuals/cirdmanual/CIRD81900.htm

You may not claim for employment related benefits.
www.hmrc.gov.uk/manuals/cirdmanual/cird83000.htm

Externally provided R&D staff
These are the staff costs paid to an external agency for staff who are directly and actively engaged in the R&D project and as such, differ from employees and subcontractors. Relief is generally on 65 per cent of the payments made to the staff provider. Special rules apply if the company and staff provider are connected or elect to be connected.

www.hmrc.gov.uk/manuals/cirdmanual/cird84000.htm

Subcontracted R&D

SME Scheme
You can generally claim for 65 per cent of the payments made to unconnected parties. The subcontracted work may be further subcontracted to any third party.

Special rules apply where the parties are connected or elect to be connected.

Large Company Scheme
R&D expenditure subcontracted to other persons is generally not allowable unless it is directly undertaken by a charity, higher education institute, scientific research organisation or health service body – or by an individual or a partnership of individuals.

See page 17 for more detailed information on subcontracted R&D and www.hmrc.gov.uk/manuals/cirdmanual/cird84250.htm for the meaning of subcontracted activities.

Consumable items
You can claim for the cost of items that are directly employed and consumed in qualifying R&D projects. These include materials and the proportion of water, fuel and power consumed in the R&D process.

They exclude telephone, rent and rates as they are not consumed.

www.hmrc.gov.uk/manuals/cirdmanual/cird82300.htm
Software directly used in the R&D
You may claim for the cost of software that is directly employed in the R&D activity. Where software is only partly employed in direct R&D, an appropriate apportionment should be made.
www.hmrc.gov.uk/manuals/cirdmanual/cird82500.htm

Clinical trial volunteers
Pharmaceutical companies and research organisations often make payments to volunteers taking part in clinical trials. Since 2006, payments made for participating in trials qualify for R&D Relief claims. The relief applies to expenditure incurred on or after 1 April 2006 for the Large Company Scheme and on or after 1 August 2008 for the SME Scheme.
www.hmrc.gov.uk/manuals/cirdmanual/cird84400.htm

Contributions to independent research
Only large companies may claim R&D Relief on contributions they make towards funding relevant independent R&D. This R&D must be carried on by the recipient and be related to the company’s trade. Contributions must be made to a qualifying body – a charity, higher education institute, scientific research organisation or health service body – or to an individual or a partnership of individuals.
www.hmrc.gov.uk/manuals/cirdmanual/cird82200.htm
www.hmrc.gov.uk/manuals/cirdmanual/cird82250.htm

Prototypes
Where a prototype is created to test the R&D being undertaken, the design, construction and testing costs will normally be qualifying expenses. However, if the prototype is also built with a view to selling the prototype itself (such as the construction of a bespoke machine), HMRC considers that activity to be one of production and outside the R&D scheme, even if R&D was undertaken to create the prototype. It is then necessary to determine the expenditure incurred on the R&D and that on production. For example, the construction costs and materials consumed would not be qualifying expenses, but design, modelling and testing costs could still qualify.
In any case of doubt, it is recommended that you seek advice from NIRC/CTO who will liaise with the appropriate R&D Specialist Unit.

Collaborative working
In general, where two companies collaborate on an R&D project, each can claim relief on the qualifying costs they have incurred. Where a company and a university or other research institute collaborate, only the company can claim relief on the qualifying costs it has incurred. Such collaborative arrangements are governed by the respective contracts and it is recommended you seek advice from the appropriate R&D Specialist Unit in any case of doubt.

A SME Scheme worked example


<table>
<thead>
<tr>
<th>Costs</th>
<th>Allowable</th>
<th>Qualifying Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D staff costs</td>
<td>£150,000 x 80% allowable as staff costs</td>
<td>£120,000</td>
</tr>
<tr>
<td>R&amp;D Manager’s costs</td>
<td>£100,000 x 20% allowable as staff costs</td>
<td>£20,000</td>
</tr>
<tr>
<td>Heat and light</td>
<td>£5,000 x 25% as consumable items</td>
<td>£1,250</td>
</tr>
<tr>
<td>Disposable laboratory equipment consumed</td>
<td>£200 as consumable items</td>
<td>£200</td>
</tr>
<tr>
<td>£80,000 payments to an unconnected subcontractor for specific R&amp;D work</td>
<td>65% of payments allowable as subcontracted R&amp;D</td>
<td>£80,000 x 65% = £52,000</td>
</tr>
<tr>
<td>£70,000 payments to unconnected staff provider for staff directly engaged on R&amp;D</td>
<td>65% allowable as an externally provided worker</td>
<td>£70,000 x 65% = £45,500</td>
</tr>
<tr>
<td>Total qualifying expenditure</td>
<td></td>
<td>£238,950</td>
</tr>
<tr>
<td>SME Scheme enhanced R&amp;D Relief @ 75%</td>
<td>£238,950 x 75%</td>
<td>Additional deduction due £179,212.50</td>
</tr>
</tbody>
</table>

What costs don’t qualify?
Not all costs qualify and you cannot receive R&D Relief for:
• Capital expenditure under either of the R&D Relief schemes. However a generous 100 per cent Research & Development Allowance may be due on capital assets such as plant, machinery and buildings used for R&D activity.
See also: www.hmrc.gov.uk/manuals/camanual/CA60000.htm for more details.
• The production and distribution of goods and services.
• Payments for the use and creation of patents and trademarks, as these are the costs of protecting the completed R&D. This also includes the staff costs in relation to the time spent by staff on the preparation and submission of such applications.
• The cost of land.
SMEs who subcontract qualifying R&D activities can claim tax relief on 65 per cent of the payment to the subcontractor. SMEs undertaking qualifying R&D for large enterprises may claim Large Company Scheme Relief.

**You as the contractor**

Under the SME Scheme the subcontractor does not need to be a UK resident and there is no requirement for the subcontracted R&D to be performed in the UK.

There are special rules where the parties are connected or elect to be connected. The diagrams below help explain what you may claim. See also the guidance at: [www.hmrc.gov.uk/manuals/cirdmanual/cird84200.htm](http://www.hmrc.gov.uk/manuals/cirdmanual/cird84200.htm)

### Unconnected Subcontractors

<table>
<thead>
<tr>
<th>Company</th>
<th>can claim</th>
<th>65% of the qualifying R&amp;D payment made to a subcontractor</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Scheme</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Connected Subcontractors

<table>
<thead>
<tr>
<th>Company</th>
<th>can claim</th>
<th>Generally the expenditure contracted to other persons is not allowable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Scheme</td>
<td></td>
<td>The lesser of 100% of the R&amp;D payment made to the subcontractor, or the relevant expenditure in the connected party’s accounts</td>
</tr>
<tr>
<td>SME Scheme</td>
<td></td>
<td>The lesser of 100% of the R&amp;D payment made to the subcontractor, or the relevant expenditure in the connected party’s accounts</td>
</tr>
</tbody>
</table>

**Note 1**

An individual, a partnership made up wholly of individuals, or a qualifying body – see: [www.hmrc.gov.uk/manuals/cirdmanual/cird82250.htm](http://www.hmrc.gov.uk/manuals/cirdmanual/cird82250.htm)

**Note 2**

Go to: [www.hmrc.gov.uk/manuals/cirdmanual/cird84200.htm](http://www.hmrc.gov.uk/manuals/cirdmanual/cird84200.htm) for the definitive rules.

**You as the subcontractor**

Generally, if a SME or large company carries out an R&D project under contract to a large company, or a person not chargeable to tax in the UK as a trade, profession or vocation, they are likely to be able to make a claim under the Large Company Scheme. See: [www.hmrc.gov.uk/manuals/cirdmanual/cird81470.htm](http://www.hmrc.gov.uk/manuals/cirdmanual/cird81470.htm)

If you are unsure how any of these rules may affect your company or client, contact the Northern Ireland Corporate Tax Office (NIrCTO) who will liaise with the appropriate R&D Specialist Unit.
The treatment of any R&D grants or subsidies you receive will depend on their EC notification status.

However it is possible to claim both R&D Relief and an R&D grant on the same project. Details of Invest NI’s Grant for R&D programme are given on page 20.

The SME Scheme

- If the grant is a ‘notified state aid’
  As the SME Scheme is itself a notified state aid, none of the R&D costs will qualify under the SME Scheme. However the company may still be able to claim relief for the project under the Large Company Scheme at 130 per cent of the gross allowable expenditure.

- If the grant is not a ‘notified state aid’
  The grant should be deducted from the SME qualifying expenditure and relief is due on the net costs under the SME Scheme at 175 per cent. The costs excluded by the grant may also qualify for relief under the Large Company Scheme at 130 per cent.

Examples

<table>
<thead>
<tr>
<th>Grant is a notified state aid</th>
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</thead>
<tbody>
<tr>
<td>R&amp;D costs</td>
<td>£100,000</td>
</tr>
<tr>
<td>Less grant or subsidy</td>
<td>£40,000</td>
</tr>
<tr>
<td>Net cost of project</td>
<td>£60,000</td>
</tr>
<tr>
<td>No claim under SME Scheme but can claim under Large Company Scheme</td>
<td></td>
</tr>
<tr>
<td>Large Scheme R&amp;D Relief £100,000 @ 30%</td>
<td>£30,000</td>
</tr>
<tr>
<td>Tax saved (using 28% tax rate)</td>
<td>£8,400</td>
</tr>
<tr>
<td>Enhanced expenditure</td>
<td>£30,000 @ 28%</td>
</tr>
<tr>
<td>Plus already claimed in accounts</td>
<td>£28,000</td>
</tr>
<tr>
<td>Total tax saved</td>
<td>£36,400</td>
</tr>
</tbody>
</table>

N.B. The grant receipts are taxable under the normal capital/revenue taxing provisions.

Grant is not a notified state aid

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<tr>
<td>Net cost of project</td>
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</tr>
<tr>
<td>Claim under both SME and Large Company Schemes</td>
<td></td>
</tr>
<tr>
<td>SME Scheme R&amp;D Relief £60,000 @ 75%</td>
<td>£45,000</td>
</tr>
<tr>
<td>Plus</td>
<td></td>
</tr>
<tr>
<td>Large Scheme R&amp;D Relief £40,000 @ 30%</td>
<td>£12,000</td>
</tr>
<tr>
<td>Total R&amp;D Relief</td>
<td>£57,000</td>
</tr>
<tr>
<td>Tax saved (using 28% tax rate)</td>
<td></td>
</tr>
<tr>
<td>Enhanced expenditure</td>
<td>£15,960</td>
</tr>
<tr>
<td>Plus already claimed in accounts</td>
<td>£28,000</td>
</tr>
<tr>
<td>Total tax saved</td>
<td>£43,960</td>
</tr>
</tbody>
</table>

Your grant provider will be able to tell you whether or not the grant/subsidy is notified.

The Large Company Scheme

Grants are not deducted from the qualifying expenditure and the R&D claim can be made on the gross allowable expenditure.

<table>
<thead>
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Invest NI – Grant for R&D

An overview

The Grant for R&D programme supports company innovation in services, products and processes. It is open to existing and potential Invest NI clients that are manufacturing and/or engaged in internationally traded services.

Support is offered in two stages:

1 Project Definition

Project Definition assistance helps you to plan and clearly define your R&D project. The maximum level of funding available ranges from 40 per cent to 75 per cent of eligible costs depending on the type of project to be defined and the size of your business. Up to £50,000 of support is available for this stage.

2 Grant for R&D

If you have already defined your project and can meet the selection criteria, your business can access the Grant for R&D without undertaking the Project Definition stage. The maximum level of funding available ranges from 25 per cent to 70 per cent of eligible costs depending on the type of project and the size of your business.

Additional support available

New to R&D?

If your business is new to R&D (has not received R&D support from Invest NI in the last five years) and has fewer than 50 employees, a higher rate of support may be available under de minimis aid. You could be eligible for support of up to 75 per cent of eligible project costs – up to a maximum grant of £50,000 – to help your business undertake an R&D project for the first time. This support is also available for entrepreneurs who want to establish new and innovative businesses with the potential to export to international markets. Note that de minimis support is not a notified state aid.

Collaborating?

The Grant for R&D provides extra support for businesses wishing to collaborate. Collaborative projects build on effective partnerships between industry, academia and research bodies to promote research that can be commercialised. Collaboration also allows smaller businesses to develop innovative technologies without having to invest in large R&D departments.

If you want your business to collaborate with universities, research bodies or other businesses, you may be eligible for additional support of up to 15 per cent, providing the total support accessed under the Grant for R&D does not exceed 80 per cent of the total project costs.

For further information on Invest NI’s Grant for R&D programme go to: www.investni.com/r+d

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For further information on Invest NI’s Grant for R&D programme go to: www.investni.com/r+d

Invest NI’s programmes for Innovation and Entrepreneurship are part financed by the European Regional Development Fund under the European Sustainable Competitiveness Programme for Northern Ireland.
How to claim R&D Relief

To claim R&D Relief, include qualifying expenditure of at least £10,000 on your Company Tax Return and you’ll benefit on your usual Corporation Tax payment date for the period.

Making a claim
You can claim R&D Relief by entering the total qualifying expenditure on the full Company Tax Return form, CT600.

Receiving the relief
The company will benefit on its usual Corporation Tax payment date for the accounting period.

Under the SME Scheme, SMEs who prepare their accounts on a going concern basis, may be able to claim a payable tax credit – up to 14 per cent of the R&D loss surrendered (12.5% from 1 April 2011). This is limited to the PAYE and NICs payable for payment periods ending in the accounting period.

www.hmrc.gov.uk/manuals/cirdmanual/CIRD90500.htm

Back dated claims
If your company has been undertaking qualifying R&D and has not yet claimed R&D Relief, you may make a back dated claim within the anniversary of your filing date – generally two years after the end of the accounting period.

What records should the company keep?
There is no additional record keeping requirement specifically for the purposes of claiming R&D Relief. However you should be able to give a summary of the R&D project undertaken and explain why you think the project is R&D within the tax relief definition. It is important to focus on what advances the company was seeking and the uncertainties faced rather than just a description of the finished product.

You should also include a breakdown of the expenses that qualify for relief. You may find it helpful to use the Research and Development (R&D) Relief Calculator at: www.hmrc.gov.uk/ct/forms-rates/claims/randd-tool.htm to calculate the qualifying expenditure and make a claim.

Help and information
If you are unsure about any aspect of R&D Relief or want practical advice or guidance with your claim, you can get additional help and information from your local point of contact, the Northern Ireland Corporate Tax Office (NirCTO) who will liaise with the appropriate R&D Specialist Unit:

Northern Ireland Corporate Tax Office (NirCTO)
Custom House
Custom House Square
Belfast
BT1 3ET
Email: david.r.stewart@hmrc.gsi.gov.uk
Telephone: 03000 599 000 or 03000 599 001
Fax: 028 9056 2977

For further information on NirCTO’s activities and an electronic copy of this R&D Relief guidance, go to: www.hmrc.gov.uk/nircto/index.htm

R&D Specialist Units
Maidstone (Deals with most Northern Ireland R&D claims)
Telephone: 01622 760405
Manchester (Northern Ireland Pharmaceutical companies)
Telephone: 0161 288 6308
Frequently asked questions

Can I claim R&D Relief and an Invest NI grant?

Yes, however the EC notification status of the Invest NI grant will affect under which R&D Scheme you can claim. Most Invest NI grants are ‘notified’, therefore both SMEs and large companies can claim under the Large Company Scheme on the gross qualifying expenditure. See page 19 for the treatment of such grants.

How do I know if a grant is notified?

Your grant provider will be able to tell you whether or not the grant/subsidy is notified.

Can I claim patent costs?

The costs of preparing and registering a patent are not R&D – they are the costs of protecting the completed R&D.

What is the difference between a subcontractor and an externally provided worker?

A subcontractor is a person paid by the R&D company to carry out a specific R&D activity.

An externally provided worker is an individual who provides, or is under an obligation to provide, their services personally to the R&D company under the terms of a contract between them and the staff provider. The individual will be paid by the staff provider but work under the R&D company’s direction. The company pays the staff provider.

How do I treat R&D losses?

Under the SME scheme, losses arising from the enhanced R&D expenditure in the period may be surrendered for a payable tax credit of 14 per cent of the loss for expenditure incurred on or after 1 August 2008 and 12.5% for expenditure incurred on or after 1 April 2011. Any unsurrendered or unutilised losses under either the SME or Large Company Scheme may be carried forward to be set against future year’s trading profits under the normal corporation tax rules.

How long will it take to receive an R&D tax credit repayment?

The R&D Specialist Units aim to deal with 95 per cent of payable tax credit claims within 28 days of receiving the claim.

Is there anything else I should consider before making a claim?

Before finalising your claim, you should consider some of the common errors made in R&D Relief claims.

Local Industry Sectors - Agri-food

The Agri-food sector is increasingly exploiting new science and technology. A project to develop a new feed or to grow crops that have substantially increased vitamin content, produce better or more reliable yields, are more tolerant to weather conditions and resistant to blight, would be qualifying R&D. The scientific and technological advance is in resolving the uncertainty in the creation of a new improved strain. However, work to protect this new strain with plant breeding rights does not qualify as it is regulatory, not scientific or technological activity.

Not every change advances overall knowledge and capability. Creating new Vitamin C rich confectionery simply by adding Vitamin C to the ingredients does not qualify. A competent professional could carry out the process without uncertainty in either combining the ingredients or their reaction in the body when consumed.

Creating an innovative chilled food container that provides a substantially longer shelf life than currently available, would qualify. The scientific and technological uncertainties to be addressed are in the interactions between the food, gas content and container to keep food fresh for longer. By contrast, the work in dealing with authorities to comply with extended use-by date regulations would not qualify.

Not all innovation qualifies. A project to create a food container where the innovation lies in the artistic design or presentation of the packaging to encourage prospective customer purchases, would not qualify. Any uncertainty here is in design or marketing, not in science or technology.
Local Industry Sectors – ICT

The computer games industry provides particularly good examples of innovative projects that do meet the requirements of the R&D schemes and also examples of projects which do not. No matter how original and inventive the game storylines are, these are not scientific or technological advances. The important criteria is not what is produced but how.

A company realised that each object on a game’s screen had to be programmed in respect of its interaction with all the other objects. As the game became more complex, more objects were introduced and the amount of code required rose exponentially. The solution was to programme the properties of each object. When the objects interacted, a separate code was no longer required as the inherent properties produced the outcomes. The qualifying expenditure on developing this innovative code qualified for R&D Relief.

The ICT sector is so fast moving that further advances overtake new and ground breaking developments very quickly. What is important is that a project represents an advance at the time of development. New encryption and security techniques are being developed regularly and in many cases give rise to further advances. Even if the technique is quickly rendered redundant it will probably qualify for R&D Relief. The same applies to new search engines using new search methods.

Many advances are in the software field but advances in hardware are not unusual and will qualify for R&D Relief if they are designed to overcome a scientific or technological uncertainty. Equally, very small companies dealing in subcontracted work may qualify if the work undertaken is sufficiently innovative, even if the larger contractor’s project does not qualify.

“The important criteria is not what is produced but how.”

www.hmrc.gov.uk/manuals/cirdmanual/CIRD81960.htm for more information.

Local Industry Sectors – Advanced Materials

Whilst some companies specialise in the design and production of new materials, other companies find they become involved in this area as an adjunct to their main activities.

A company, specialised in agricultural engineering, used a probe to provide information on the quality of cereals which were transported in sacking. Measurements could only be taken at the top, as anywhere else would damage the sacking. This however did not produce representative samples. The company designed a material which allowed a probe to enter the sacking and which reverted to a sealed surface once the probe was removed. Although the market for this material was limited, it proved extremely successful in overseas markets. For R&D purposes the company incurred qualifying expenditure in overcoming the uncertainty in developing the material.

A further development arose when the company received orders from some Eastern European countries, where the material did not react in the required way in sub zero temperatures. The company undertook further research to amend the material to meet the requirements of the extreme conditions. The additional expenditure on manufacturing the material was not qualifying but the research costs of amending the material to meet the ‘cold weather’ issues again qualified.

In many projects involving advanced materials, the scientific and/or technological uncertainty can be readily identified. However, the use of ‘new’ materials in existing processes may also qualify if it can be shown that the outcome has or was intended to significantly improve efficiency, for example, significantly reduce waste.

“Companies find they become involved in this area as an adjunct to their main activities.”

www.dius.gov.uk/innovation/business_support/randd_tax_credits/case_studies
Local Industry Sectors – Advanced Engineering

R&D is increasingly providing an important competitive edge in this sector. A project is commissioned to produce a prototype (not to be sold) that will test a design for a new eco-petrol engine and exhaust. The goal is to achieve a substantial reduction in eco-unfriendly emissions with a performance at least as good as a comparable engine. This appears to competent professional engineers to offer hope of achieving a real advance by way of an improvement in vehicle technology. The uncertainty in science and technology is whether this substantial reduction with the comparable performance sought is possible. Even if unsuccessful, this and the construction of the prototype is still a qualifying R&D project.

On the other hand, an innovative in-bus eco-waste bin, where the innovation is in the attractive and appealing presentation of different compartments designed specifically to encourage the usage and promotion of recycling, does not qualify. The uncertainty of persuading people to put their litter in the bin is in the field of social science, not in the field of technology. The technology required would be obvious to a competent engineer.

A project for a new standard bus engine which is substantially lighter, cheaper, or faster to produce than any currently available or known to be possible (for example patented), whilst maintaining performance levels (for example in power, robustness and life) can all qualify as R&D. However, a minor and routine adjustment such as one to incorporate slightly better sparkplugs, already designed and used in another vehicle, would not qualify.

“R&D is increasingly providing an important competitive edge in this sector.”
www.dius.gov.uk/innovation/business_support/randd_tax_credits/case_studies

Local Industry Sectors – Life and Health Sciences

The creation of new drugs is an obvious example of qualifying R&D in this sector.

Creating a new drug, up to and including Phase III trials, to more effectively and safely reduce the risk of a stroke, is a qualifying project. The salaries of both the scientists and their laboratory assistants doing this hands-on R&D can qualify. However, their work to achieve important regulatory FDA approvals does not qualify, because any uncertainty in achieving these is in regulation, not science or technology.

A project to create a new artificial bladder-system for patients with urinary difficulties, substantially more comfortable, safe and leak-proof than any other designed, qualifies as R&D. The advance sought and uncertainty addressed is how to bio-engineer the materials to achieve these qualities, enabling safe insertion and avoiding rejection.

However, where a competitor reverse-engineers this product, for markets not covered by any intellectual property protection, this does not qualify. The advance in science or technology worldwide has already been overcome and the competitor’s uncertainty is not an uncertainty at industry sector level, rather an uncertainty in their own state of knowledge.

A project for newly-diagnosed diabetes patients to provide details of their blood sugar etc. to the hospital via a simple internet web-form is innovative. It allows the hospital to monitor their condition in real-time and advise the patient immediately on how best to manage their condition. Although this achieves an advance in patient care, any uncertainty associated with the patient’s use of the software is not an uncertainty in the technology itself. As such, this is not a qualifying R&D project. The design of the web based system would be obvious to the competent professional.

“Creating a new drug, up to and including Phase III trials, to more effectively and safely reduce the risk of a stroke, is a qualifying project.”
www.hmrc.gov.uk/manuals/cirdmanual/CIRD81920.htm for more information.
Local Industry Sectors – Construction

In general this is a traditional and well-proven industry. However an increasing number of companies undertake R&D to exceed the traditional methods in terms of life expectancy of buildings, durability or robustness. A company created a cladding system which had the appearance of ‘normal’ brickwork but incorporated the capacity for off-site fabrication, improved fire protection and suitability to fast-track production. Mechanical fixing rather than wet mortar provided strength and durability and the capacity to construct in all weather conditions were further elements providing significant cost savings. The uncertainty of the materials in the cladding system and the technological uncertainties surrounding fixing were qualifying R&D projects.

Another company specialised in constructing laboratories. To combat contamination the company designed some new buildings with removable sections. Exterior walls could be slid away and a unit could be removed in total and replaced by a new unit before the exterior walls were slid back into place. The technological uncertainties surrounding the mechanisms to achieve this had to be overcome before the concept proved viable, making this a qualifying project.

A further example of innovation is a company which used wood in part of a project. Traditionally the wood needed to be of a certain age but the company was able to modify a coating so that younger and cheaper wood could be used whilst still having the required qualities. Significantly this development was a small element of an overall conventional project. Only after discussion with the site foreman did the company directors realise that the modification and application of the coating qualified for R&D Relief.

“In general this is a traditional and well-proven industry.”

www.dius.gov.uk/innovation/business_support/randd_tax_credits/case_studies