

SUPPORTING BUSINESS DURING CORONAVIRUS

CORONAVIRUS AND R&D

PREPARED BY
OPTIMAL COMPLIANCE
ON MARCH 27, 2020



CORONAVIRUS AND R&D RELIEF

Why completing an R&D claim is a way of alleviating critical cashflow problems as a result of the virus.

Many UK businesses are struggling as the economies around the world are put under pressure by the current Coronavirus pandemic. Companies are operating in an extreme financial climate that is forcing them to reduce workers' salaries, send staff on unpaid leave and in many cases having to lay off some employees. Naturally, business owners are looking at any alternative revenue stream and funding to keep their business afloat.

Research and Development tax credits offer a viable cash payment that could be paid directly into your bank account in under 6 weeks. **R&D relief offers the potential to claim back overpaid corporation tax or claim a cash tax credit** for the past two accounting years.

Importantly relief is claimed after the period has finished, allowing you to reclaim value from work already complete. The scheme allows eligible companies to claim up to 33p per £1 spent on eligible R&D projects across a range of qualifying expenditure types.

CASH FLOW AND R&D RELIEF

How long does it take to receive the benefit?

HMRC's guidance for processing SME claims is set at 28 days, with an additional two weeks on top for any payment processing where a cash credit or refund is due. This brings the total waiting time into the range of 4-6 weeks depending on the type of benefit that you are expecting. On the contrary, in cases where an imminent CT payment is due for the relevant claiming period the benefit of submitting an R&D claim is immediate. However, it should be considered that HMRC has a huge role in the government's emergency financial measures and that this may have an effect on the above mentioned time scales.

WHAT COUNTS AS R&D ACTIVITY?

HMRC's definition is deliberately broad to be able to fit a diverse range of industries and sectors. R&D takes place when you are creating something that will advance the overall knowledge or capability in the field of science and technology.

In simple terms, if there is some level of **uncertainty** and if you are solving industry problems, creating new software, process or materials or anything that could be considered Intellectual Property, you qualify.

All industries, developing or improving new products, processes, or services, can be eligible for R&D tax credits. There are many types of projects that qualify, but most projects will involve the development of new technology or services or novel applications of technology to scientific problems.

If your company is taking a risk in attempting to resolve a scientific and technological uncertainty, then there is a good chance you are also carrying out R&D. Most importantly, the projects do not need to be successful to qualify. Once a scientific or technological problem has been identified, and a way to fix it sought, the work towards this goal will be eligible regardless of the result.

HOW DOES A COMPANY BENEFIT FROM CLAIMING?

The benefit comes in the form of a CT liability reduction and/or a direct payout from HMRC. **There are two ways of getting a payout.**

One is by refund, this is issued if the CT liability has already been paid for the year in question. Any refund awarded then can be used to offset against other imminent tax bills such as PAYE.

The other is by surrendering losses for a cash credit. The latter type of payout is in fact the most generous as the scheme is designed to help loss making companies that are in their product development phase with minimal to no sales.

For SMEs, the financial benefit ranges between 18% to 33% of the qualifying expenditure (the costs that are attributable to the R&D work) and it depends on the tax position of the company.

The more loss making a company is the more generous the scheme is, i.e. the heavily loss making companies can receive up to 33% as a cash credit from HMRC. Whilst a company in profit will see up to 25% benefit as a CT liability reduction. The lowest rate is in the case of break even companies who can still enjoy a modest 18% cash credit.

WHAT COSTS QUALIFY

The eligible expenditure could include staff costs, agency workers, subcontractors, consumables, and/or software. We've found that many companies don't understand the scope of things that may qualify as costs. This prevents companies from claiming benefits on them, and, as a result, losing potentially thousands of pounds or more in R&D tax relief. Therefore, it is worth learning and highlighting all the different costs that may qualify.

HOW TO CLAIM

R&D tax credit claims are made through company corporation tax returns. The scheme allows for retrospective claims up to 2 years after the company's financial year end. So, if your year-end is 30 April, you have until the end of April 2020 to make a claim for the 2018 financial year.

If you have any questions relating R&D claims, do get in touch and one of our specialist consultants will be available to help.