

Update

R&D tax

PRECISE. PROVEN. PERFORMANCE.

Claims for R&D Tax Relief: a second opinion

Has your company claimed all the research and development tax relief to which it may be entitled?

The benefits of claiming

Research and Development (R&D) tax relief allows companies to substantially uplift qualifying costs for tax purposes so that taxable profits can be reduced. Moreover, where this uplifted cost creates or enhances a tax loss, small and medium (SME) size companies can surrender these tax losses for a cash credit.

Consequently, R&D tax relief has the ability to significantly reduce corporation tax liabilities for profit-making companies or generate much needed cash receipts for loss making SME companies.

Since 1 April 2013, large companies claiming R&D Tax relief can show the likely tax value as income in its accounts and as a credit against their tax liabilities thereby boosting disclosed pre-tax profits and earnings before interest and taxes values and triggering tax refunds even where no corporation tax has been paid.

A second opinion

Many companies have already claimed R&D tax relief to some extent and some of these companies may even have had a visit from specialist tax inspectors as a result of the claim. However there is often more that can be claimed and the Moore Stephens Innovation & Technology Group can provide a second opinion. We have reviewed lots of claims and have submitted replacement claims to the HM Revenue and Customs (HMRC) where we believe the previous claims to be understated.

Our specialists understand R&D and the guidance to which the HMRC works and know where and how claims can be improved whilst keeping within the rules. Our service covers meetings with HMRC inspectors and supporting the claims in the event of an enquiry or other meeting. To date, all our claims have been accepted by the HMRC as regards technological or scientific qualification.

There is no need for us to be appointed as auditor or as corporation tax agent as our second opinion service can operate on a standalone basis.

Further, we can structure our fees on a success basis so that we only charge in the event you receive a tax repayment from our work. We will also let you know if we cannot improve your claim – this provides a valuable assurance exercise to companies, even where we are not instructed to make a claim. If any of the above information affects your organisation, please contact us on the details listed overleaf.

We can help in the following ways:

Projects

We understand why some projects qualify and others don't. We have identified projects not previously considered to qualify and where necessary demonstrated why they qualify to HMRC inspectors.

Costs

We understand which costs qualify and which don't. We have claimed costs that were previously disregarded or increased those that were only partially claimed.

SME claims

Some SME companies have to claim at the lower Large Company scheme. The rules behind this are widely misunderstood and misinterpreted by accountants. We understand these differences and will make the right claim at the right time.

Specialists

Our R&D team comprises engineers in most technological and scientific sectors and not just accountants who seek to 'audit' or otherwise reduce figures provided by our clients.

Defence

On these occasions where HMRC open enquiries into claims our specialists will lead negotiations with them and demonstrate why the claim is valid.

Case Study 1

Our client's auditor had submitted claims for R&D Tax relief to a value of around £400,000 triggering tax repayments of around £80,000. These encompassed a number of engineering projects but focussed purely on the design stage of each project. Further, they had discounted all projects that had any element of customer funding.

We carried out a technical due diligence exercise into all areas of the company's activities and discovered after discussing with the technical engineers and finance team that:

- A number of projects had been omitted. The auditor had only focussed on projects that had been successful. A number of projects had not met the desired objectives and whilst these were deemed to have failed, they can still qualify for R&D Tax relief.
- Even though some had been funded by a customer, it is still possible for R&D claims to be submitted depending upon the facts behind the funding.
- The design stage of a project is only one stage within a typical R&D cycle. In this instance we were able to include planning stages, proof of concept stage and testing. This means that the financial costs involved with such a claim are that much greater.
- In this instance, a claim under SME rules could be made. The auditor had submitted the claim under the Large Company Scheme.
- The outcome was that qualifying costs were increased to around £1.5 million per year and the client company received a tax repayment after meeting HMRC to agree the claim of around £1.1 million covering a three year period.

Case Study 2

Our client is a large pharmaceutical company where the R&D claim had been prepared and submitted by the in-house finance team in accordance with principles established by a Big four firm of accountants. In this instance, the company had successfully identified all qualifying projects but had not claimed all qualifying costs as these had not been set out within the proformas that had been supplied. It is possible to claim costs over and above those that can be directly attributed to the R&D processes. These are known as 'qualifying indirect activities' and can substantially boost claims in certain circumstances. Our client was able to increase its annual tax repayments by over £500,000.

Case study 3

Our client was a small early-stage venture capital funded company involved in software development. Its auditor had believed that a collaborative research contract entered into by the company had disqualified costs relating to this research. We read through the contract and identified the key issues insofar as they related to qualification for R&D Tax relief and submitted a substantially higher claim that yielded a further tax refund of over £70,000. This claim was subject to HMRC enquiry processes and other than a small adjustment for £350 was agreed in full.

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