



Research & Development tax relief changes

20 April 2023

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Presenters



Today's speaker
Gary Collins
Partner- Head of Global
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Today's speaker
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Today's speaker
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Housekeeping

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt. Type in your question and click **send**. You can also upvote other attendees questions.

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Resources

All delegates were sent a reminder email approximately one hour prior to the start of this webinar, this email contained a link to a webpage where slides and accompanying resources can be downloaded. A recording of this webinar will be available to watch later at icaew.com/taxwebinars.

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Research and Development tax relief

April 2023



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Research and Development Agenda

1. What is “R&D for tax purposes?”
2. What costs qualify for R&D tax relief
3. R&D tax relief comparison
4. Additional compliance requirements
5. Changing landscape of R&D
6. Q&A



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Research & Development What is “R&D for tax purposes?”

According to the guidance set out by the Department for Science, Innovation, & Technology, R&D takes place when the following all apply:



An Advance in Science or
Technology



Scientific or Technological
Uncertainty



Not Readily Deducible by a
Competent Professional

** HMRC have additional guidance for software and pharma companies

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Research & Development

What is “R&D for tax purposes?”

For accounting periods beginning on / after 1 April 2023, HMRC have changed the definition of R&D to include pure mathematics

“15B. Mathematical techniques are frequently used in science. From April 2023 mathematical advances in themselves are treated as science for the purposes of these Guidelines, whether or not they are advances in representing the nature and behaviour of the physical and material universe”



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Research & Development

What costs qualify for R&D tax relief

Revenue Expenses (eligible for enhanced deduction):

- Staff Costs:
 - Salary, Wages, Bonus, Employers Pension Contributions, Employers Class 1 NIC, **not** Recruitment costs, Benefits-in-Kind
 - Anything going through the payroll
 - Reimbursed Expenses
- Consumables (Materials)
- Software purchased for purposes of R&D Project
- Overheads:
 - Power, Fuel, Heat, Light, Water
- “Qualifying Indirect Activities” – Accounting, HR, Security, Maintenance etc.
- Special Rules for external workers / sub-contractors (65% of spend)
- Sub-contracted expenditure only eligible under the SME regime.

- **From 1 April 2023 can now include costs of datasets and cloud computing**



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Research & Development What costs qualify for R&D tax relief

Refocus on R&D relief to UK activities

- Delayed until accounting periods beginning on / after 1 April 2024.
- R&D activity will have to be physically located in the UK.
- Specific exemptions where work outside the UK is permitted for geographical, environmental, social or regulatory/legal requirements.
- Cost constraints or lack of suitable workers will not be an accepted excuse.



Research & Development R&D tax relief comparison

| | SME Regime | | Large Company Regime (RDEC) | |
|---------------------|--|---|--|--|
| | Up to 31 March 2023 | From April 2023 | Up to 31 March 2023 | From April 2023 |
| Profitable Company | 130% uplift on costs = 24.7% net benefit | 86% uplift on costs = 21.5% net benefit | 'RDEC' credit @13% = 10.5% net | 'RDEC' credit @20% = 15% net |
| Loss Making company | Costs plus 130% uplift = 230% A repayable credit is available at 14.5% = 33.4% subsidiary* | Costs plus 86% uplift = 186% A repayable credit is available at 10% = 18.6% subsidiary* | 10.5% "cash" benefit | 15% "cash benefit" |

* PAYE/NIC restriction for accounting periods beginning on / after 1 April 2021

* From 1 April 2023, for R&D intensive businesses, if an SMEs qualifying R&D expenditure covers at least 40% of the total spending during a given financial period the 10% will remain at 14.5%.

Research & Development Additional compliance requirements

- New submission requirements for R&D claims made from 1 August 2023
 - Digital submission and include an Additional Information form
 - **HMRC have confirmed that if the 'Additional Information Form' has not been completed, that this renders the R&D claim invalid.**
 - Named senior officer of the company
 - Detailed R&D report
 - Details of the agent (if applicable) who helped prepare the claim
- Advanced notification rules from 1 April 2023
 - Inform HMRC of the company's intention to file a claim within six months from the end of the claim period
 - Not required if company has made a claim within the three accounting years before



Research & Development Additional compliance requirements

The following information will need to be provided (as per the draft guidance published on 18 April 2023*)

- the Unique Tax Reference (UTR) number of the company
- employer PAYE Reference number
- VAT Number
- contact details of main internal R&D contact at the company - this is the person from the business responsible for the claim
- main type of business carried out (SIC code)
- if completed by an agent, the agent reference number (if you have one)
- contact details of any agent working on the claim
- accounting period start and end dates
- number of EPWs who worked on the projects
- PAYE scheme reference for those EPWs

* - Research and Development (R&D) tax reliefs - draft guidance - GOV.UK (www.gov.uk)



Research & Development Additional compliance requirements

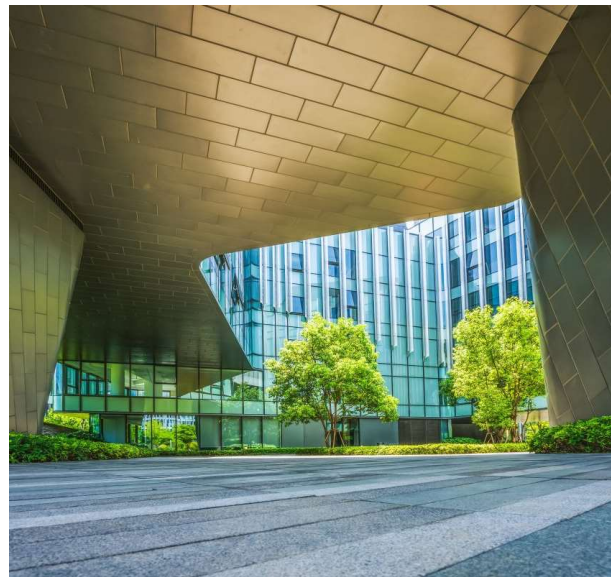
- Qualifying expenditure under the following categories
 - employee costs
 - externally provided workers
 - contracted out R&D
 - software
 - consumable items
 - payments to participants of a clinical trial
 - data licence (for accounting periods starting on or after 1 April 2023)
 - cloud computing services (for accounting periods starting on or after 1 April 2023)
 - contributions to independent R&D costs (RDEC only)
 - amount of the above that is qualifying indirect activities (QIAs)
 - number of projects claimed for
- Descriptions of the projects under 5 headings:
 - What is the main field of science or technology
 - What was the baseline level of science or technology that you planned to advance?
 - What advance in that scientific or technical knowledge did you aim to achieve?
 - What scientific or technological uncertainties did you face?
 - How did your project seek to overcome these uncertainties?



Research & Development Additional compliance requirements

- For 1 to 3 projects - describe all projects
- For 4 to 10 projects - 50% of the total expenditure, with a minimum of 3 projects described
- For 10 to 100 plus projects - 50% of the total expenditure, with a minimum of 3 projects described - however, if the qualifying expenditure is split across multiple smaller projects, describe the 10 largest

Large Business customers with a Customer Compliance Manager (CCM) should contact the CRM to agree the level of information required before submitting the Additional Information form.



Research & Development Additional compliance requirements

- R&D Enquiries
 - From 1 April 2023, should HMRC challenge an R&D claim it will be possible for the claimant company to submit an amended claim within 30 days.
- SME Criteria and year of grace
 - When the SME size is organically breached, the year of grace will be extended to all group companies from 1 April 2023.
- Going Concern
 - From 1 April 2023, a company will continue to be regarded as a going concern, even when the trade has been transferred out of the business, provided the company remains financially viable.



Research & Development Changing landscape of R&D

- R&D Consultation closed on 13 March 2023
 - Single, simplified research and development (R&D) tax relief scheme
 - Merging the existing research and development expenditure credit (RDEC) and the small and medium enterprise (SME) R&D relief
 - Proposed to be implemented with effect from 1 April 2024



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Any questions?

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Future webinars and events

Webinars

16 May: Payroll & Reward update 2023

6 July: Capital allowances

Events

22 May: VAT at 50 – where next

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