

RESEARCH & DEVELOPMENT TAX RELIEF IN THE SOFTWARE INDUSTRY

Is your business making the most of this relief?



As technology becomes a greater part of our lives, so too does the software to operate it. As the sector grows there are greater opportunities, often overlooked, to benefit under the UK's Research and Development ('R&D') tax incentive schemes.

What is R&D?

R&D is broadly defined for these purposes as activities carried out that "seek an advance in science or technology, through the resolution of scientific or technological uncertainty".

The advance may be in the development of a product or a process and may include software developed internally.

There is a common misconception that qualifying projects will only apply to the most cutting edge technology firms.

However, provided the company can evidence technological uncertainty in the field that it seeks to achieve advancement in, these activities should qualify, regardless of sector and other focuses of the business.

What has changed?

R&D as a tax relief has been available since 2000 but, during the course of this Government, the Treasury has invested significant resource in reviewing the relief, targeting it at the right companies and ensuring the UK remains an attractive location to develop and retain intellectual property.

In this current climate, where more scrutiny is being placed on tax planning, it is important to remember that R&D tax relief is actively intended to provide benefits to companies investing in research and development in the UK.

The changes introduced in 2015 include:

- Increases in the rate of relief for the SME scheme
- Increases in the rate of relief for the RDEC (Large Company) scheme;
- Formalisation of existing understanding of consumable costs

- Introduction of an advance assurance system (lasting three years) for small companies making their first R&D claims under the SME scheme
- Ongoing consultation into engagement with small companies and first time claimants.

What is the benefit?

There are two regimes for R&D relief, the SME scheme and the Large Company scheme.

SME scheme

Under the SME scheme, the benefit is delivered as an enhanced deduction that reduces taxable profits/increases trading losses, or alternatively a cash tax 'credit' can be claimed.

Companies can claim under the SME scheme provided the company or group has:

- Fewer than 500 employees and either
- Turnover of less than €100m, or
- Gross assets of less than €86m.

Qualifying expenditure incurred on or after 1 April 2012 will qualify for enhanced R&D tax relief at 225% (ie 125% beyond the original P&L deduction). Qualifying expenditure incurred on or after 1 April 2015 will qualify for enhanced tax relief at 230%. The value of the tax credit is:

Date of claim	Pre 1 April 2014	Post 1 April 2014	Post 1 April 2015
Credit rate	11%	14.5%	14.5%
Value of credit per £ of R&D spend	24.75p	32.62p	33.35p

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Large company scheme

For costs incurred after 1 April 2013, two schemes run in tandem - the legacy scheme and the new R&D Expenditure Credit ('RDEC') scheme.

From 1 April 2016, the legacy scheme ceases to apply and only the RDEC scheme applies for large companies.

Under the legacy scheme qualifying expenditure will benefit from R&D relief at 130% with no availability of a payable credit.

Under the new RDEC scheme, the company receives a taxable credit of 10% of qualifying R&D expenditure.

For most companies, the decision to apply the RDEC scheme is simple since the scheme offers a higher rate of relief however there may be other factors to consider which we can assist you in navigating for costs incurred prior to 1 April 2016.

Qualifying expenditure

Qualifying revenue (in nature) expenditure includes:

- Salary costs (including employer's NI and pension contributions) of technical staff (incl. externally provided workers) and other employees involved in the R&D project (either directly or indirectly)
- Expense of consumables required
- 65% of costs for subcontracted workforce
- Expense of software licences and utilities employed for use in the project

Types of project which may qualify

Examples of some of the recent R&D tax projects that BDO has undertaken include:

- The technology arm of a large automotive dealer network's development of a scalable and universally applicable Inventory Management solution.

“ R&D submissions from your team are head and shoulders above those that we see from other firms - 99.9% of submissions are agreed without question. ”

SENIOR INSPECTOR
HMRC - R&D Unit

- Boutique software house's development of a highly encrypted iPad app (with associated backend systems) to provide a financial dashboard to a bank's Board level executives.
- Insurance broker's development of its online platforms and e-commerce site and the integration of these with its internal document management system based on three decades old technology.
- The development of an internet of things systems by a foreign owned manufacturer to assist with a real time consumable ordering process.
- Software house's projects relating to the UK Government's G-Cloud initiative aimed at improving public sector procurement of IT services.
- The development of a replicable interfacing database to integrate external third parties' facilities management tools and the back office systems of a large multi-national group.

How can we help?

BDO can assist you in identifying and claiming R&D tax relief. We have strong working relationships with the local HMRC specialists and through our detailed understanding of the legislation we can help you maximise the benefit of a claim. Our pragmatic, commercial approach helps capture all the relevant information required without taking up excessive management time.

Next steps

If you would like more information in relation to the availability of R&D tax relief, please contact your usual BDO contact or a member of the R&D team listed overleaf.



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