

RESEARCH & DEVELOPMENT TAX RELIEF IN THE FINANCIAL SERVICES INDUSTRY

Is your business making the most of this relief?



The Government continues to support innovative businesses by encouraging companies to apply for R&D tax relief and increasing rates of relief

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.

It is a common misconception that only companies operating in certain sectors are eligible for this relief. We have worked with companies of all sectors and sizes to successfully claim the relief, including life sciences, manufacturing, marine, civil engineering, aerospace and defence and software.

Why is it of interest to Financial Services (FS) companies?

In a fast moving and technologically advanced industry it is likely that R&D is being undertaken by many FS providers. However, lots of companies are doing R&D but not making a claim, and they are potentially missing out on tax relief.

The types of qualifying activities which an FS provider might be engaged in vary from software or process development, alongside their integration, and range from complete systems overhauls, to regulatory requirements needing updates to existing systems and the addition of new or better functionality to a company's systems.

So what qualifies?

From our sector experience an example of R&D qualifying projects undertaken by an FS company might include the development or implementation of:

- efficient and scalable analysis engines for financial matrix calculations
- real-time unified messaging and dynamic processing capabilities across electronic trade platforms
- a fraud detection system with associated security framework, enabling the prediction of abnormal usage patterns
- a universal testing platform capable of simulating different network and storage scenarios embedded with modern failover and recovery mechanisms
- more efficient and secure processing of data, with higher performance, and less errors/exceptions given the change in data source, format or quality
- integration of systems, services or data employing improved characteristics achieving full automation of activities, ie 'straight-through processing' reducing manual intervention and increasing speed, security and performance of business functions
- developing and implementing new data migration and processing techniques, covering extraction, cleansing, manipulation and analysis
- enhancing existing processes or systems to improve throughput and efficiencies, establishing capacity and greater performance, scalability, secure systems and data confidentiality, providing high availability and resilience, and compliance with regulatory controls
- maintaining service stability and ensuring system scalability and performance levels

Other potentially qualifying projects might seek to achieve:

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“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

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

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.

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

Large company scheme - to RDEC or not to RDEC for pre 1 April 2016 expenditure?

The time limit to make a R&D claim is two years from the end of the accounting period. With the two reliefs running in parallel until April 2016 (when the legacy relief ceased) companies face the decision of when to 'opt in' to the RDEC regime.

For most companies, the decision is simple:

- The RDEC offers a higher rate of relief (7.9% vs 6.3%) based on a corporation tax rate of 21%. After 1 April 2015, this increased to 8.8% based on the future tax rate of 20%.
- The RDEC will increase the company's EBITDA by 10% of qualifying expenditure (11% after 1 April 2015).
- The RDEC offers a payable credit to loss making companies.

There will, of course, be other factors to consider which we can assist you in navigating, but the opportunity is clear.

How to make a claim

When preparing and submitting a claim for R&D tax relief, the key is to really look at what the company does. This will include engaging with other areas of the business, particularly technical staff, to ensure the claim is correctly scoped.

The next step is to design a methodology that avoids using significant internal resource to provide details of qualifying costs and activities.

The claim is made within a company's tax return, but we recommend that this is supported by a self-contained report that explains the nature of the work on which a claim is being made and addresses the questions that HMRC typically ask.

Our experience of working with HMRC since the relief was introduced, and more recently through representation on the consultative committees, means that we know what HMRC are expecting to see from a claim and ensures that we minimise the risk of lengthy enquiries after submission of the claim.

Where BDO make the difference

Since the relief was introduced in 2000, BDO has built close relationships with the HMRC local specialist teams and has seen a real shift in their focus from the early days when agreeing a claim was a very arduous task.

The local R&D Inspectors have been trained to actively support claims from companies undertaking R&D and our experience has been that HMRC have become increasingly knowledgeable of the relevant industries.

With the focus of the guidance becoming increasingly complex, it is crucial to involve an R&D specialist at an early stage to ensure that the relief is maximised.

From recent discussions with R&D Inspectors, we understand HMRC is toughening its stance on record keeping and looking to use the existing penalty regime where adjustments are subsequently made. This reinforces the need for a robust, supportable methodology.

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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