



## TAX COMPLIANCE SERVICES

# Research and Development Tax Relief SME Scheme

## TAX

Research and Development (R&D) can be a speculative cost that can have a significant impact on the profitability of a business. Companies incurring expenditure on qualifying R&D are eligible to claim the tax benefits introduced in the UK to encourage science, engineering and innovation.

### What is R&D?

In the eyes of DTI, R&D has a much wider definition than you might think and can cover areas such as:

- Creative work undertaken to increase the overall collective state of knowledge.
- Innovative scientific or technological work that breaks new ground or achieves an appreciable improvement over existing technologies.

You might be eligible for tax benefits on R&D and not realise it!

For the purpose of this relief, SMEs are broadly companies with less than 250 employees and either a turnover not exceeding €50m (about £34m), or a balance sheet total not exceeding €43m (about £29m).

### Reliefs available

There are two forms of tax benefit you may be eligible for:

- R&D Capital Allowances are available to companies who incur qualifying capital expenditure and are given at the rate of 100 percent. This means for every £100 spent, the company is entitled to £100 tax relief in the year of expenditure. Qualifying capital expenditure could include buildings and other assets, but not land.
- R&D Tax Relief is available at a 'super deduction' rate of 150 percent for SME companies who incur revenue expenditure on R&D. This means for every £100 spent, the company is entitled to £150 tax relief in the year of expenditure, equivalent to a cash benefit of £15 for companies paying 30 percent corporate tax. Typical qualifying R&D costs include staff costs, consumable or transformable materials (which now includes software costs and utilities) and some sub-contracted costs. Loss-making SMEs may even surrender their R&D related losses for a 16 percent cash payment. There is a de-minimis spend of £10,000 before relief can be claimed.

## KPMG's R&D Tax Relief Group in the UK

KPMG's multidisciplinary approach and considerable practical experience can help to determine the qualification of potential R&D expenditure, to increase the tax benefits and potentially save you money. By using a team of professionals with a variety of backgrounds including engineering, science, tax and accounting, KPMG can review your company's R&D activities to determine eligibility and help optimise the tax benefit.

### Our Approach

- Technical meetings – To help interpret and identify all potentially qualifying R&D expenditure, our engineers and scientists can speak directly to your technical staff to gain an understanding of development procedures and obtain detailed project information.
- Technical report – Using the information collected at the technical meetings, we are able to produce a report detailing the qualifying R&D projects. This report forms the basis of the claim.
- Cost Identification and Extraction – We can work with your finance team to identify and extract the eligible expenditure for the qualifying projects. We can prepare evidence and an audit trail, reconciling to accounts for R&D expenditure. These qualifying costs are documented to help support a claim. Where required, we can offer experience in the design of technology processes to help automate the data extraction procedure.
- Claim submission and negotiation – All of the above information will be collated into a broad ranging claim document for submission to HM Revenue & Customs. Using our experience we can negotiate with HM Revenue & Customs on your behalf to ensure agreement of an acceptable outcome.
- Going forward – We can establish procedures for ongoing review of R&D spend. Where required we can provide training for both financial and technical staff to help them identify qualifying activities and expenditure.

In delivering these R&D tax benefits we will aim to limit the time commitment from your staff.

### Potential benefits

- You can establish whether you are claiming your full entitlement.
- You can potentially accelerate the tax benefit on capital assets (by several years when compared to other allowances).
- You can increase the cash benefit of reduced tax liabilities.

- You can reduce your net cost of R&D conducted in the UK.
- KPMG's approach can assist in promoting preferred practice in your company by helping to identify process inefficiencies whilst helping to increase your company's knowledge about, and ability to deal with, R&D tax relief.

### The R&D Tax Relief Group in action

Recently a producer of software for use in the financial sector believed that the work it conducted did not qualify for R&D tax relief. However a feasibility study by a KPMG team identified in excess of £1m in qualifying expenditure, producing a cash benefit of £150,000 for that year. In addition, the team were able to increase the claim for R&D capital allowances. These tax benefits helped to secure the long-term future of the company in the UK by making available funds for additional R&D projects.

### To find out more, please contact:

#### David O'Keeffe

Partner, R&D Tax Relief Group  
Tel: 020 7694 4170  
david.okeeffe@kpmg.co.uk

#### Craig Lazzaroni

Tel: 020 7694 4182  
craig.lazzaroni@kpmg.co.uk

#### Mark Hobbs

Tel: 020 7694 4178  
mark.hobbs@kpmg.co.uk

Or your usual KPMG contact.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2005 KPMG LLP, the UK member firm of KPMG International, a Swiss cooperative. All rights reserved. Printed in the United Kingdom.  
KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.  
Designed and produced by KPMG's UK Design Services.  
Publication Number: 212651  
Publication Name: R&D Tax Relief  
Publication Date: April 2005