

RESEARCH & DEVELOPMENT TAX RELIEF ELIGIBLE COST ITEMS

Research and Development (R&D) tax credits can be claimed for daily operational costs. The list of qualifying cost items could go on forever, so we have listed the most common costs that are eligible for R&D tax relief as well as costs that do not qualify.

Direct staffing costs

Are there employees in your company who have been directly and actively engaged in the R&D project? If so, your company can claim for gross salaries, bonuses, wages, class 1 NIC, reimbursed travel costs and pension fund contributions. These must be apportioned based on timesheets or an estimate of the amount of time the employee spent on the project during the financial period. Note that support staff costs, such as administrative or clerical staff, do not qualify.

Externally provided R&D staff

External agencies or other 3rd parties who have provided external R&D staff who are directly and actively engaged in the project will be paid. Relief is usually given on 65% of the payments made to the staff provider. For further clarification please discuss with your ZLX consultant.

Subcontractor costs

SMEs who have appointed someone else to carry out R&D activity on their behalf in exchange for payment can generally claim 65% of the costs paid to subcontractors for the qualifying activities. The subcontractor needn't be UK-resident.

Consumable items

Raw materials and utilities such as water, heating, power and lightening can be claimed if they have been directly employed and consumed in the qualifying R&D project.

Software

Software that is directly employed in the R&D activity can be claimed for. If software is moderately utilized in direct R&D, an appropriate apportionment should be made.

Clinical trial volunteers

Pharmaceutical companies and contract research organisations often make payments to people volunteering to take part in clinical trials. These qualify for relief. SMEs who carry out R&D projects involving clinical trial volunteers can claim relief under the normal subcontracting rules. For larger companies, they will be able to claim relief itself under the large company scheme. This cost item is usually only relevant to pharmaceutical companies.

Contributions to independent research

Large companies may claim R&D relief on contributions they make towards funding relevant independent R&D. Contributions must be made to a qualifying body, such as: a charity, higher education institute, scientific research organisation or health service body, or to an individual or partnership of individuals Please note that this is only an option for large companies.

Prototypes

The design, construction and testing costs of a prototype are usually eligible for R&D relief

However, if the prototype is built to be sold, HMRC considers this as production and outside the R&D scheme, even if R&D was undertaken to create the prototype.

Collaborative working

Two companies who have collaborated on an R&D project can each claim relief on the qualifying costs. If a company has collaborated with a university or other research institute, only the company can claim relief on the qualifying costs.

COSTS THAT DO NOT QUALIFY FOR RESEARCH AND DEVELOPMENT TAX RELIEF

You cannot receive R&D tax relief for the following:

- The production and distribution of goods and services
- Capital expenditure under either of the R&D relief schemes
- The cost of land
- Payments for the use and creation of patents and trademarks

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