

INTRODUCING THE NORTHERN IRELAND CORPORATE TAX OFFICE (NIRCTO)

NIRCTO provides early certainty on the tax consequences of commercial transactions affecting proposed investment or expansion in Northern Ireland. It also facilitates direct access to a network of technical tax specialists and fast tracks a range of services where time is critical. It is the local point of contact for advice on R&D tax relief.

R&D tax relief in Northern Ireland

Accountants have a valuable role to play in identifying potential claimant companies that may be unaware that their activities could qualify for R&D tax relief. At a time of difficult trading conditions there may be an opportunity to get some cash back from HMRC where a company is not yet in profit.

What relief is available?

R&D tax relief allows companies who carry out qualifying R&D of at least £10,000 per annum related to their trade to claim an extra deduction for certain qualifying revenue expenditure. The level of relief available depends upon which scheme the company falls into.

The SME scheme

- A company can get relief of 175% (150% before 1 August 2008) on their qualifying R&D costs.
- Loss-making SMEs can, in certain circumstances, surrender the losses arising in return for a payable tax credit (This is limited to the PAYE and NICs paid in the period).
- From 1 August 2008 the SME threshold limits have doubled for R&D purposes only.

The Large scheme

- A company can get relief of 130% (125% before 1 April 2008) on their qualifying costs.
- There is no repayable tax credit for losses under this scheme.

Note that SMEs may also claim relief under this scheme if they cannot claim under the SME scheme because of a grant or other subsidy.

What costs qualify?

Direct staffing costs for R&D employees (www.hmrc.gov.uk/manuals/cirdmanual/cird83000.htm).

Paying an external staff provider for R&D staff (www.hmrc.gov.uk/manuals/cirdmanual/cird84000.htm).

Materials, water, fuel and power consumed in the R&D (www.hmrc.gov.uk/manuals/cirdmanual/cird82300.htm).

Software directly used in the R&D (www.hmrc.gov.uk/manuals/cirdmanual/cird82500.htm).

Subcontracting out R&D activities (www.hmrc.gov.uk/manuals/cirdmanual/cird84200.htm).

What costs don't qualify

There is no relief for capital expenditure under either of the R&D tax relief schemes. However, a generous 100% R&D allowance may be due on capital assets such as plant, machinery and buildings used for R&D activity. Payments for the use and creation of patents and trademarks are not qualifying costs.

What projects qualify?

Research and development has a specific statutory definition for the purposes of R&D tax relief, which is not the same as the commercial meaning. Visit www.hmrc.gov.uk/randd/toola.htm for more information.

- R&D takes place when a project seeks to achieve an advance in science or technology.
- This advance must extend the overall knowledge or capability in the field of science or technology, not just the company's own state of knowledge or capability.
- Pure product development will not qualify.
- R&D work begins when work to resolve the uncertainty starts and ends when that uncertainty is resolved or work to resolve it ceases.

Experience has shown this is the area where most people need help. So save yourself time: if you are in doubt whether the company's project will qualify for relief, call NIRCTO who will liaise with the appropriate specialist unit.

What about grants and other subsidies?

The treatment will depend on its EC notification status and under which scheme it's claimed.

The SME scheme

- If the grant is a 'notified state aid'

As the SME scheme is itself a notified state aid, none of the R&D costs will qualify under the SME scheme. However, the company may still be able to claim relief for the project under the large company scheme at 130%.

- If the grant is not a 'notified state aid'

The grant should be deducted from the SME qualifying expenditure and relief is due on the net costs under the SME scheme at 175%. The costs excluded by the grant may also qualify for relief under the large company scheme at 130%.

The large scheme

Grants are not deducted from the qualifying expenditure and the R&D claim can be made on the gross allowable expenditure.

How do you make a claim?

Claims for R&D tax relief are normally made by entering the claim on the company tax return CT600 within the anniversary of the filing date. If your client or company has been undertaking qualifying R&D and has not yet claimed, they may make a backdated claim within the above time limit. Before finalising a claim, you should visit www.hmrc.gov.uk/randd/top10-error.htm to view the top 10 errors listed by claimants.

What information should the company keep?

There is no record keeping requirement specifically for the purposes of claiming R&D relief. However, the company should be able to give a summary of the R&D undertaken and explain why they think the project is R&D within the tax definition. This should include a breakdown of the expenses that qualify for relief – (use Tool B at www.hmrc.gov.uk/randd/rd-claim-template.xls).

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