

Research & Development Tax Reliefs for the Retail Sector

Research & Development tax relief ('R&D') is a corporation tax incentive designed to stimulate innovation and development in the UK. Companies in a wide range of industries may be eligible for R&D tax credits if they are developing new processes, products or services and have made an appreciable advance in knowledge or capability in a field of science or technology through the resolution of uncertainty.

Relief

There are two main reliefs available the SME scheme for small and medium sized businesses and the Research and Development Expenditure Credit Scheme ('RDEC') for large businesses.

SME Scheme

In broad terms, a company will be a SME if it has less than 500 members of staff and its turnover is less than €100m. Relief for SMEs can be obtained in two forms:

- Enhanced deduction - A profit making company with a corporation tax liability can obtain a 230% deduction of qualifying costs. This means that for every £100 of qualifying R&D costs, £230 is deducted from the company's profits.
- Repayable tax credit – A loss making business can take advantage of R&D tax credits by surrendering a proportion of its trading losses relating to its R&D costs in return for a 14.5% cash repayment.

RDEC Scheme

A large company can obtain relief under the RDEC scheme. For expenditure incurred after 1 April 2020, an RDEC tax credit is worth 13% of qualifying R&D costs and may either be offset against a company's tax liability or, in some circumstances, payable in cash (subject to certain restrictions).

Claiming tax relief

An R&D tax relief claim is included within the company's corporation tax return for the relevant accounting period. The deadline for submitting a claim is 2 years from the end of the accounting period in which the costs were incurred.

What are the qualifying criteria?

The definition of R&D is not easy and, though wide ranging, requires the exercise of professional judgement. It does include the development or improvement of a product or process but there must be a technological advancement and an attempt to resolve a technological uncertainty.

It is not enough that your new product is commercially innovative; it must be an extension to the existing body of technological achievement or make an appreciable improvement to an existing process, device, product or service.

Technological uncertainty is the practice of taking a technologically feasible idea and turning it into a cost effective and reproducible process, device, product or service.

A project does not have to actually achieve its aims to qualify for R&D tax relief.

Claims are commonly made by businesses in the engineering, pharmaceutical, healthcare, software development, energy saving and biotech fields but successful claims have been made by firms in many other sectors including architecture, manufacturing, design engineering and construction.

Examples of qualifying R&D activities for the Retail Sector

- The creation of a new product or improvements to the manufacturing process
- Improvements to stock controls/warehousing
- New techniques or improvement to supply chain management
- Creation of payment systems and e-commerce platforms

Qualifying costs

Qualifying R&D expenditure will fall within the following categories:

- Software – Computer software used directly in the R&D project can qualify for relief
- Utilities – Costs of electricity, gas, water and other fuels. Rent, rates or telecoms costs cannot be included
- Consumable materials – Materials used in carrying out the R&D such as items used to create a prototype. The cost materials incorporated into finished products cannot be included
- Externally provided workers – Individual agency staff, contractors and freelancers who are subject to your supervision, direction and/or control
- Staff costs in relation to staff working directly on the R&D activities
- 65% of subcontracted costs, that is where the R&D work is outsourced to certain other persons such as a university or research establishment.

Example – Loss making business

XYZ Ltd has made a loss of £20,000 after deducting qualifying R&D costs of £80,000. The R&D tax credit available to the company under the SME scheme is calculated as follows:

Trading loss	£20,000
Enhanced tax relief: £130% x £80,000	£104,000
Total loss	£124,000
Surrenderable loss lower of:	
230% x £80,000	£184,000
Total loss	£124,000
Loss surrendered	£124,000
Loss available to carry forward	NIL
Tax credit payable: 14.5% x £124,000	£124,000

Client Savings 2017-2019

£4,067,519

Total corporation
tax savings and R&D
cash refunds



£107,039

Average saving
per client



£35,679

Average saving
per client per year



Contact us today for more information:



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