

Reduce your Corporation Tax Bill! An Urgent Call for Action.

As part of the 2011 Budget, George Osborne gave UK Businesses an 'urgent call for action' in the form of the government's 'Plan for Growth', a package of measures that support private sector investment, enterprise and innovation. Osborne wants the tag 'made in Britain' to drive the nation forward and to help make this happen, he is enticing UK businesses into claiming for enhanced Corporation Tax relief on research and development expenditure ("R&D").

This incentive takes the form of an increase in the additional deduction for qualifying R&D expenditure given to SMEs in computing business profits or losses for Corporation Tax purposes. Companies can now claim a 200% deduction on qualifying R&D expenditure and this is set to rise to 225% from 1 April 2012. The R&D tax relief mechanism will be simplified and the minimum expenditure requirement of £10,000 is set to be removed.

Given that only 8,350 companies claimed for R&D tax credit in 2009, (compared to the 2.1m UK enterprises registered for VAT and PAYE) one can see why this relief has been given some attention by the government this year. However, this statistic also raises the question of whether or not SMEs are aware of their ability to claim for this relief and if it is worth taking on board Osborne's 'call to action' by making an R&D claim. My experience of successful candidates certainly demonstrates that it is worth considering.

Many business owners that I speak to will often disregard any initial suggestion that they may be able to claim R&D tax relief, with the responses 'my company is too small', 'it is too complicated' or 'we do not do anything that would qualify'. One such client of mine, a company operating in the I.T. sector, has now received more than £18,000 in tax credits over the past three years and will no doubt continue to claim for future periods. My client was pleasantly surprised that (a) his company qualified, (b) his research activities qualified and (c) the benefits of such a claim far outweighed the cost.

The first barrier that my client had to overcome was to realise that his company qualified. A company will qualify for the SME scheme as long as they fall under the scope of Corporation Tax, they have fewer than 500 employees and have either of the following:

- An annual turnover not exceeding €100m
- A Balance Sheet not exceeding €86m.

The next barrier was to show that the company's project seeks to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty. By clearly defining what technological advance was being sought, what uncertainties were involved, how these uncertainties were overcome and why the knowledge being sought was not readily deducible by a competent professional, my client was able to prove that his project qualified.

The next step was to deduce which costs were eligible for the claim. Eligible costs range from employee costs to utilities expenditure and are generally straightforward to identify.

Once these steps had been followed, all that remained was to calculate the relief, complete the necessary paper work as part of the company's annual Corporation Tax return and submit the claim.

The claim process is often less complicated than business owners expect. The R & D tax credit scheme is a great incentive provided by the government for investment in business research and from my experience; it appears that many businesses are not taking full advantage. With such a tax incentive immediately impacting on a company's cash flow, I would urge SMEs to listen to Osborne's words and take action now by speaking to their accountant about making a claim.