

COPPER

Supporting your R&D claim

How to put together an R&D tax credit claim that stands up to HMRC scrutiny.

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Why prepare a report?



There is no legislative requirement to produce a document to support an R&D tax credit claim. But without one, HMRC has no way of knowing whether a claimant company is making a valid claim that complies with tax legislation and BEIS guidelines.

Note: In the absence of a report, the only way for HMRC to find out if your claim is valid is to open an enquiry.

HMRC has come under increasing pressure over recent years to ensure that claimants under the R&D tax credit schemes are getting things right. To assist, 100 new tax inspectors have been recruited into the specialist HMRC teams to increase scrutiny over submitted claims.

A report that delivers an understanding of the nature of work undertaken and demonstrates that the complexities of tax legislation have been correctly understood and applied to that work, will be well received by HMRC.

It is worth making an upfront investment of time to ensure that you are explicitly and transparently focusing on the issues pertinent to R&D guidelines and tax legislation.

What happens when an R&D tax credit claim is submitted to HMRC?

The majority of R&D tax credit claims are dealt with by a specialist HMRC R&D office. For large companies, their R&D tax credit claims will most likely be dealt with separately.

The claim will initially be reviewed by HMRC caseworkers. HMRC caseworkers, are trained professionals in relation to R&D tax credits, and do not possess widespread industry based technical knowledge.

The caseworker is reviewing the claim to see if it is generally in the right format and does not contain obvious errors. Depending on the size of the claim, the degree of perceived risk or error, or potentially even the size of the company/complexity of its tax affairs generally, it will either be accepted at this stage or referred for a more detailed review by a senior member of the R&D team.

At this point, HMRC may decide further information is required to satisfy any concerns and raise an enquiry.



Getting started on your R&D tax credit claim

If you've ever tried to put together an R&D tax credit claim, you'll know that there are many interdependent aspects to bring together. Doing this in an evidence based framework will showcase the claim in the best possible light.

There are a number of steps that business owners or chief financial officers can take to make sure your company's claims are positively received by HMRC.

Demonstrate your eligibility

Focus on the advances sought and technological uncertainties faced by reference to the BEIS guidelines.

Summarise tax technical points

Identify areas of risk of challenge and robustly set out the filing position taken.

Explain the basis of calculations

Set out how costs are obtained, extrapolated and adjusted to meet legislative criteria.

1

Demonstrating eligibility

It is important to reference all the qualifying projects on which your claim is based. Be sure to define the advances to demonstrate a clear link to the BEIS guidelines for R&D (paragraphs 9a – 9d), reproduced here:

- Extending overall knowledge or capability in a field of science or technology; or
- Creating a process, material, device, product or service which incorporates or represents and increase in overall knowledge or capability in a field of science or technology; or
- Making an improvement to an existing process, material, device, product or service through scientific or technological changes; or
- Using science or technology to duplicate an existing process, material, device, product or service in a new or improved way.

Challenges should also be described to evidence uncertainties around what the relevant supporting science or technology can deliver by reference to project goals. It is the technological input rather than the commercial output that matters when describing an advance and challenges.

2

Concluding on tax technical points

There are many nuances in the application of the basic cost categories that need to be properly considered. Robust claims will provide good levels of detail to document the filing position for interpretations of tax legislation based on fact patterns unique to your organisation.

Common complexities:

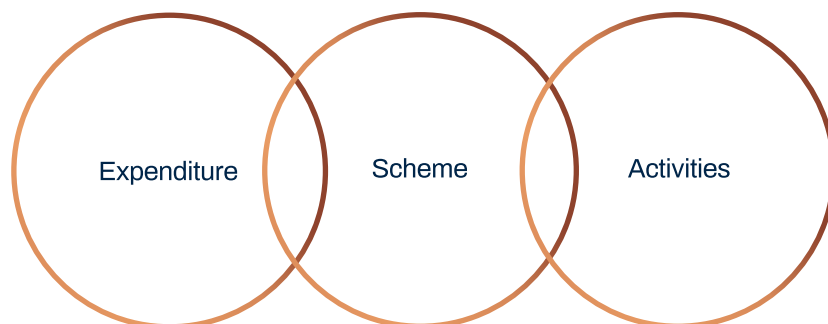
- Identification of whether your company is an SME based on its size, including how to aggregate the data or link partnered enterprises.
- How contractual arrangements can affect the entitlement to claim under the SME R&D tax credit scheme.
- The implications of grants or subsidised expenditure alongside R&D tax credit schemes.
- Differences between eligible cost categories depending on whether you are claiming under the SME or RDEC schemes.
- Whether expenditure is capital or revenue and its impact.
- The accounting treatment of costs such as intangible assets.
- Borrowing staff resource from group companies.
- The PAYE and NIC CAP.



Explaining the basis of calculations

Qualifying expenditure categories will differ depending on which R&D tax credit scheme applies to your company either across all of your projects, or possibly on a qualifying project by project basis i.e. you may need to claim under both the SME and RDEC schemes.

It is important to evidence how qualifying expenditure has been arrived at by reference to underlying projects.



The right balance of detail incorporating both numerical calculations and descriptive narratives to explain the sources of financial data, calculation methodologies, what is included/excluded and where necessary why, helps to instil HMRC confidence in the claim value.

Noting that or showing how legislative requirements have been applied helps to avoid an enquiry!

Your R&D tax credit claim report

An R&D tax credit claim report can be anywhere from 12-30+ pages long. It should include the following:

Positioning

Explain clearly why R&D is relevant to your business.



Legislative framework

Confirm, discuss and conclude tax technical requirements.



Project details

Focus on explaining advances and challenges by reference to scientific or technological input not commercial output.



Qualifying expenditure

Use numerical and written descriptions to evidence how claimed expenditure relates to qualifying activities.

Outcome

A meaningful report that gives HMRC what they are looking for.



Work with an expert to get things right

I provide expert guidance on claiming R&D tax credits from start-ups through to multinational companies with global operations and everything in between!

Working with a professional ensures every aspect of your R&D project will be properly uncovered and accurately translated into a HMRC report that will stand up to scrutiny should an enquiry be opened.

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