



GUIDE

Busting the Myths around Research and Development Tax Relief for the IT Sector



Myth #1

Research and development tax relief isn't for companies in the IT sector

You may think that R&D is only done by people in white coats experimenting in laboratories, but that's where you'd be wrong.

As the world changes at a faster pace than ever before innovations are happening continually across all industry sectors.



In a recent survey of creative industries, HMRC found that 61% of firms were classified as 'innovative', meaning they had introduced new or improved products, services, forms of organisation, business structures or processes in the last three years.

The same survey found that IT, software and computer services companies:

- Were the most likely to be innovative (68%)
- Were the most likely to have conducted R&D activity
- Had the highest mean R&D spend (£52,000)
- Were the most aware of tax credit schemes (80%)

Why not speak to people around the business and learn more about the R&D being undertaken in each department.

Only
17%

of IT companies aware of R&D tax relief said they used the scheme(s)!

Myth #2

Research and development tax relief is only available to companies developing something brand new

R&D tax relief supports companies that seek to advance - not necessarily create new - science or technology.

It covers work on processes, materials, devices, products, services, or sources of knowledge, and can still be paid out even if projects were abandoned or R&D was ultimately unsuccessful.

Advancing science or technology can include:

- Improving something that already exists
- Creating something that increases knowledge or capability
- Duplicating the effect of something that exists in a new or improved way
- Adapting or advancing knowledge or capability from another field where information was not readily deductible

Some of the IT projects we've successfully processed claims for

Brainomix Ltd

Working with experts in computer science, software engineering and neuroscience, Brainomix developed an advanced image mapping and scoring algorithms software for processing non-contrast brain CT scans. Their successful R&D claim included considerations for grant funding.

Doc-Works

Doc-Works developed a bespoke solution to help a client integrate multiple core systems upon acquiring a new business. The challenge included accessing databases and writing new system integration protocols, and the MPA analyst was able to uncover advancements and innovations their accountant couldn't

Pop-Bio

Pop-Bio developed new technology that facilitates medical research and drug development through blot testing. They did multiple rounds of testing and development, overcoming difficulties along the way, and were able to file successful R&D tax relief and Patent Box claims.

Myth #3 If you use subcontractors, you can't claim R&D tax relief

Even if subcontractors have carried out a proportion of your R&D, there are still ways you can claim for the costs incurred.

Under the SME scheme, you could claim relief on up to 65% of subcontractor costs. They don't have to be a UK resident, and the work doesn't have to have been carried out in the UK.

RDEC

HMRC states that generally, for a large company, expenditure on R&D contracted to other persons isn't allowed. However, there are some circumstances in which you can include such costs.

In essence, the subcontractor has to be:

- An individual
- A partnership of individuals
- A charity
- A higher education institute
- A scientific research organisation
- A health service body

Caution

Incorrectly calculating the cost of subcontractors is one of the main causes of errors in claims according to HMRC but you shouldn't let that put you off.

An experienced tax relief specialist can help you on your way to a successful claim.

Myth #5 R&D tax relief is only available for successfully completed projects

The good news is you could still be eligible to claim R&D tax credits even if your innovation wasn't successful, made a loss, or has become redundant.

What matters most to HMRC is that the project represents an attempt at advancement at the time of development.

For example, IT companies are regularly developing new encryption and security techniques which often lead to further advances. Even if this further development then renders the original innovation redundant, it's likely that the original project will still qualify for R&D tax credits.

There is no such thing as failure. There are only results.

Myth #6 R&D is expensive and the fees for claiming via a specialist are too high

While it's true that you do have to have invested money in undertaking research and development in the first place, a surprising amount of companies do it as part of existing projects, and would have spent on it regardless of whether a tax relief claim is made or not.

With the SME tax relief scheme, you could claim back up to 33p for every £1 spent on R&D giving you funds to invest back into your business.

Things to consider when looking for an R&D tax advisor



Standards and success rates

Look for an advisor bound by the ethics and standards of bodies like the Association of Chartered Certified Accountants and ask about HMRC compliance check rates. Ours is well below industry average, and we're also members of the ACCA.



Know the cost upfront

MPA charges a percentage of your claim value, so if your claim isn't successful, there is no charge. This model of fees is not the same across the board so make sure you're clear what it will cost you to use an advisor.



Average claim value

Find an advisor with people on the team who are experts in your sector. They should be able to understand your unique business and complex projects; it's the only way relevant costs won't be missed and your claim value is maximised.

Myth #7 Making a claim might mean HMRC will want to inspect my business

Many SMEs are unnecessarily avoiding claiming R&D tax credits or making significantly smaller claims than they should.

Some fear that if their tax credit claim goes to an enquiry it means HMRC will request to do a tax audit or VAT inspection.

Having worked on over 2,000 claims for UK businesses, this is not our experience.

As well as managing tax payments, HMRC is there to support innovation and the growth of UK companies by ensuring they receive the financial reward they're entitled to.

The best way to avoid an enquiry in the first place is to compile a robust claim that has been researched and critiqued before submission. If an enquiry is raised, what HMRC are likely looking for is more clarity on the information provided.

As a standard part of our service, we will defend any enquiries on claims we submit, and can even provide defence support to businesses who have made a claim with another company or individually and found themselves in need of more assistance.



Myth #8 I can't receive R&D tax credits if I'm already receiving grant funding

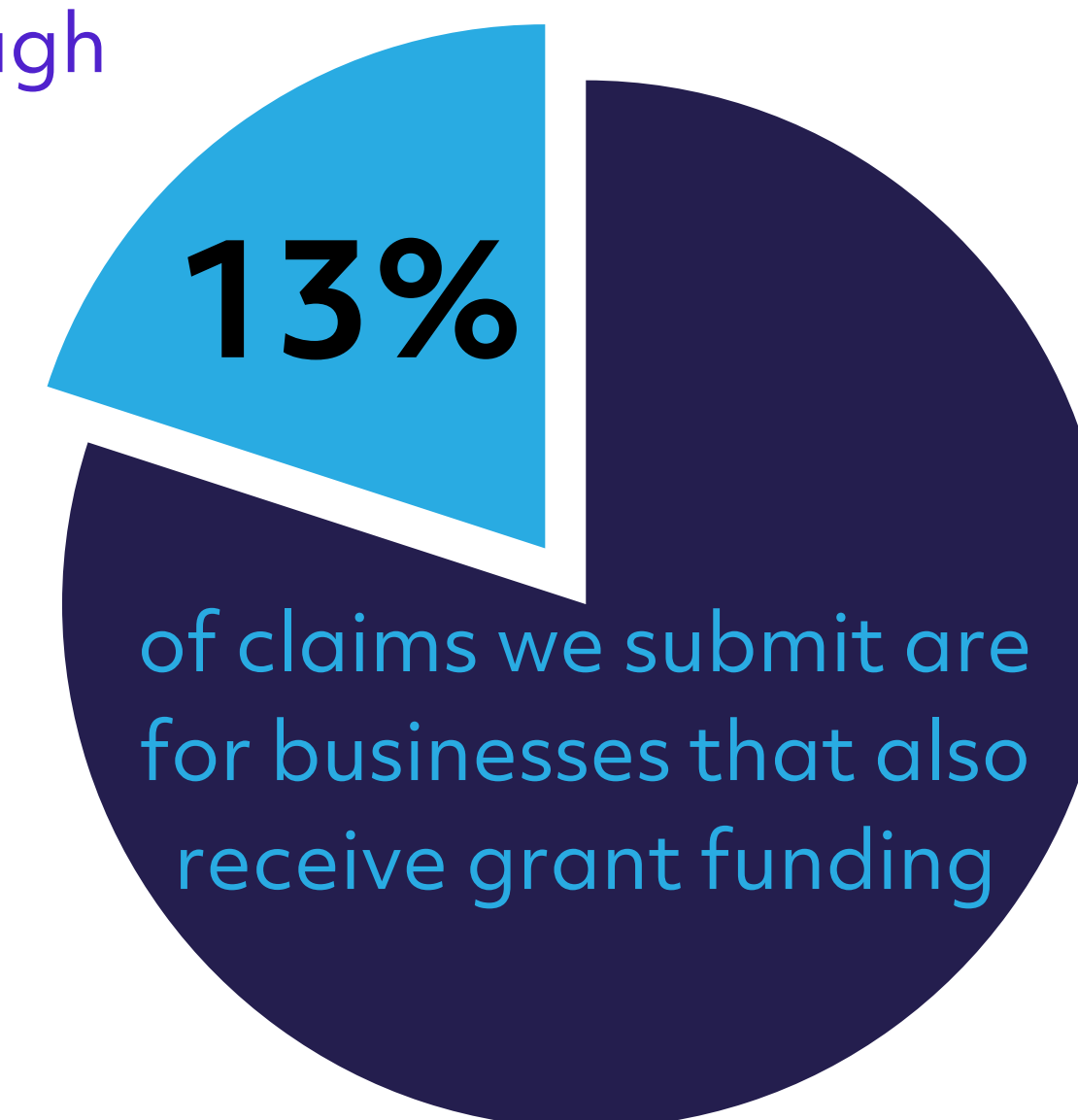
Even if you receive financial support through grant funding, in almost all circumstances your business is still eligible to claim R&D tax credits.

Grant funding can affect the total value of R&D expenditure you are able to claim for, and the scheme you are eligible to claim under but it doesn't mean you can't claim at all.

Tax relief through the SME scheme is classed as state aid; relief through the RDEC scheme is not.

EC rules state you can't claim more than one type of notified state aid, and so you wouldn't be able to claim through the SME scheme if your project was funded in any way by another type of state aid grant like those from Innovate UK.

While you can claim for projects part or fully funded by state aid through RDEC, only 10.53% relief would be provided as opposed to 33.35% through SME.



Before you choose grant funding for R&D projects, speak to an advisor like MPA who can run through all your financing options and help you decide which route would be better to go down.

Myth #9 I have to use an advisor to claim for R&D tax relief

You can submit a claim for R&D tax relief independently, and there are a number of guides provided by HMRC and on our website to help you along the way.

That being said, here are just some of the benefits of using a specialist R&D advisor like MPA:

More money

An experienced advisor will get to know your business and projects inside out, uncovering every cost you can include in your claim. What you can claim for is quite complicated, and it's likely that you - and even some advisors - could fail to include everything

Time

We process hundreds of claims every year and have a team of highly experienced experts. Even considering the exploration calls that will form part of our process, you'll still save more time by working with us vs writing and filing the claim yourself

Experience with HMRC

We have a strong relationship with HMRC, and understand how they work and how they like to receive information. R&D tax relief claims often fail due to poorly written technical reports and missing information, but our exceptional success rates show that won't be a problem if you work with us. Should an enquiry be raised, we're here to liaise with HMRC to quickly resolve any problems

Advice beyond tax relief

We work with innovative businesses to help them form a path to success, helping with everything from strategic and succession planning to payroll and accounting. We are here to help you perform to the best of your ability, and can conduct a full business review and provide advice way beyond how to maximise R&D tax relief

Book a free consultation today



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R&D tax credits can help release, sustain and accelerate innovation within your business, but explaining how your projects qualify to HMRC can be a challenge.

Using an expert can help.

While you focus on business activities your assigned MPA expert can manage your claim and liaise with HMRC on your behalf.

We have worked with many companies within the IT sector, and with 13 years' experience have created a flexible process designed to put our clients first.

Book your free, no-obligation consultation with our experts today and find out if your projects qualify for R&D tax relief.

