

“Above The Line” R&D tax credits – important changes

The Government continues its commitment to R&D tax benefits with further enhancements to the scheme in the recently published draft legislation on the forthcoming “Above The Line” (ATL) R&D tax credit. This new system affects the following companies:

- Companies treated as “large” for R&D tax relief purposes
- SMEs that carry out R&D under contract to large companies or certain other types of organisation
- SMEs that make claims for R&D tax relief on grant-funded projects

The existing scheme for SME companies continues unchanged.

Key features of the ATL scheme (officially called the “R&D Expenditure Credit”) are as follows:

- The phrase “above the line” refers to the essential feature of the scheme which is that, under accounting standards, a company will be able to account for the credit in pre-tax profits as a reduction to the cost of its R&D expense. This is considered particularly important to large companies as it will enable the benefit to be more visible to the company’s R&D function, where it may act as a greater incentive for carrying out R&D. Under the current large company scheme the benefit can only be reflected in the taxation charge.
- Companies affected by the scheme will, for the first time, be able to claim a payable R&D credit on qualifying expenditure, as long as they cannot use it against existing corporation tax liabilities of their own or within a group.
- The headline rate of the credit will be 10%, although the payable credit will be net of tax equal to the main corporation tax rate (23% from 1 April 2013). The tax deducted will then be carried forward to use against future tax liabilities

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If you would like to discuss any aspect of R&D tax relief, please contact Pronovotech on 01223 235500 or by e-mail to richard.lewis@pronovotech.com

- There will be a cap on the payable credit equal to the total PAYE & NIC liabilities relating to qualifying staffing costs. Note that this contrasts with the restriction that used to exist for SMEs which was based on PAYE and NICs of the whole company.
- Claims can be made on qualifying expenditure incurred on or after 1 April 2013. A company with a December 2013 year end, for example, will therefore be claiming under both the old and new R&D schemes for 2013.
- Initially, the new scheme will be optional, with companies having the ability to claim under the existing large company scheme still. After 31 March 2016 though the ATL scheme will be mandatory.
- There is no change to the types of costs that qualify for R&D relief or the way in which they are calculated.



Although the ATL scheme will bring with it added complexity, we see it as a positive measure. For large companies whose R&D departments currently receive no direct benefit the credit should be more visible and could have a positive effect on the profit and loss account of the individual cost centre. Additionally any size of company that cannot currently receive any cash payment – loss-making large companies and SMEs doing contract or subsidised R&D – will be able to claim an immediate cash benefit.

If you would like to discuss the changes and how they affect your company, please get in touch.

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