

## R&D expenditure credits (Lecture B1073 – 9.49 minutes)

In computing their taxable profits, small and medium-sized companies are able to claim a special enhanced deduction for qualifying R&D expenditure (see S1044 CTA 2009). With effect from 1 April 2015, the allowable deduction (often referred to as a 'super-deduction') has been set at 230% of the relevant expenditure. For a company paying corporation tax at 19%, this represents an effective tax relief of 43.7%.

In order for a company to be classified as medium-sized, it must have fewer than 500 employees; and either:

- turnover not exceeding €100,000,000 (just under £88,000,000); or
- gross assets total in its balance sheet not exceeding €86,000,000 (just under £75,500,000).

Such a company may still be a very substantial enterprise.

Any company that does not meet the test above is classified as large. Large companies used to enjoy a less generous super-deduction. However, in FA 2013, it was confirmed that large companies could claim an alternative form of R&D tax relief. This is known as an 'above the line' (ATL) credit. The ATL regime, which was originally optional, replaced the super-deduction framework for all large companies from 1 April 2016 onwards.

A key feature of the ATL credit, which is officially referred to as an 'R&D expenditure credit', is that it is treated as a taxable receipt and is paid net of tax to companies with no corporation tax liability. Effectively, it is like a form of grant.

CI 19 F(No2)B 2017 amends S104M CTA 2009 by increasing the rate of the credit from 11% to 12% in relation to qualifying expenditure incurred on or after 1 January 2018. For an example of how the relief works, see the illustration below.

### *Illustration 1*

Frederick Industries plc is a large company for R&D relief purposes.

On the assumption that Frederick Industries plc has incurred qualifying R&D expenditure of 1000 during its year ended 31 December 2018, the company's corporation tax computation would appear as follows:

Turnover	6000
R&D expenditure	(1000)
R&D expenditure credit (12%)	120
Other allowable expenditure	(2000)
	—
Taxable profits	3120
	—

CT @ 19%	593
R&D expenditure credit	(120)
	—
Tax payable	473
	—

*Contributed by Robert Jamieson*