



FOCUS ON

Agricultural Research & Development tax relief

The UK Government is committed to encouraging research, development and innovation within the UK economy. To create an attractive tax environment for companies who invest in R&D it continues to support a tax credit regime.

R&D has a much wider definition than many people think and therefore warrants a closer look.

R&D tax relief can improve your company's cash flow by reducing its tax liability and, in some cases, by obtaining an additional tax repayment (R&D tax credit).

R&D tax relief is only available for companies – and there are two different R&D tax relief schemes available depending on the size of your company. The scheme outlined below is only available for small and medium sized companies (SMEs) i.e. those with no more than 500 employees and either annual turnover of €100m or less, or a balance sheet figure of €86m or less.

What are the benefits?

A profit making business with a corporation tax liability can claim 230% of its qualifying expenditure against taxable profits; that is, it can reduce the amount of the profits on which it has to pay tax by an additional 130% of the qualifying R&D spend i.e. an additional 25p tax relief for every £1 spent on qualifying R&D.

A loss making business can take advantage of the credits by surrendering the loss related to its R&D costs in return for a 14.5% cash refund.

The above R&D tax credits can be claimed on the cost of employing staff who are directly or actively engaged in carrying out the R&D, the cost of the materials that are used in the R&D and on payments made to subcontractors that are assisting with the R&D.

Example:

A company spends £20,000 during year end 31 March 2016, on qualifying R&D. In addition to the standard tax relief for the expenditure, it can claim relief of an additional £26,000 ($£20,000 \times 130\%$). If the company pays corporation tax at the small profits rate of 20%, the total tax relief on the R&D spend is £9,200 ($£20,000 + £26,000$, at 20%).

This means that the net of tax cost to the company of incurring the expenditure is £10,800 ($£20,000$ less £9,200).

If the company were loss making it would instead be able to claim a cash refund of £6,670 ($£46,000 \times 14.5\%$).



What is qualifying R&D?

What actually constitutes R&D is wide-ranging, but actually includes the development or improvement of a product or process - there must be a technological advancement and an attempt to resolve a technological uncertainty.

What is a technological advancement? It is not enough that your new product is commercially innovative; it must be an extension to the existing body of technological achievement or make an appreciable improvement to an existing process, device, product or service.

What is technological uncertainty? It is the practice of taking a technologically feasible idea and turning it into a cost effective and reproducible process, device, product or service. Note that a project does not have to actually achieve its aims to qualify for R&D tax relief.

In agriculture related businesses, R&D could be in new husbandry or feed development. In businesses diversifying into value added activities, it could relate to the processing of primary produce, or in the development of a new or improved of an existing, food or drink product.

Can I get help to establish my R&D tax relief claim?

As the tax relief is only available to companies, this would also be an opportune time to consider the structure of the business and in what entity any diversification should take place, not just from a tax perspective.

As the tax relief available for R&D is so generous they should be a vital consideration for all companies no matter what sector the business is in. Claims must be properly made to ensure they meet HMRC requirements. HMRC will review all claims carefully - so it is important to work with experienced tax advisors to ensure any claim meets the necessary criteria.

MHA Broomfield Alexander has significant experience in preparing and submitting R&D claims in a wide variety of industries and has developed excellent relationships with the relevant inspectors at HMRC to enable claims to be agreed in the most efficient manner.

Contact us

For further information, please contact our R&D tax relief specialists:

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