



UK R&D Tax Credits Update

April 2020

Our teams have been working to support our clients and contacts during the ongoing COVID-19 situation and particularly support businesses with immediate issues such as tightening cashflows.

Here is an overview of some of the key considerations for businesses seeking to claim R&D tax credits over the short and medium term.

HMRC Updates

- The proposed introduction of the cash credit cap for the SME regime which was expected to come into effect from 1 April 2020 has been delayed until 1 April 2021.
- The R&D Expenditure Credit has been increased to 13% with effect from 1 April 2020
- HMRC are considering extending the scope of the qualifying expenditure to include costs of data and cloud computing.
- HMRC have also stated that they are dealing with increased demand for processing R&D claims and the associated repayments. They have allocated additional resources and still hope to process the majority of SME R&D tax credit claims within 28 days.
- However, HMRC do not expect that the “going concern” legislative condition for the payment of cash credits will be relaxed. This condition requires the latest published accounts to be prepared on a “going concern” basis or cash credits will be withheld.
- Further guidance is expected on the payment of SME R&D tax credits where a company is deferring other tax payments. HMRC are considering if cash credits can be made under the SME R&D tax credits scheme for businesses deferring other tax payments. A further update is expected from HMRC soon.
- R&D Expenditure Credits payments (i.e. for larger entities) may not be paid if there are other tax liabilities outstanding. HMRC will expect that the credit is utilised in line with legislative steps before making cash payments.

Other Considerations and Recommendations

Businesses may be able to take some straightforward steps to ensure they have identified the available R&D tax credits and R&D Expenditure Credits in a timely manner:

- Where resources are available, accelerate and prioritise the preparation of R&D tax incentive claims and consider whether all activities in previous open periods have been identified. The cash benefit can be up to 33% of the qualifying expenditure for SMEs and 10% for companies claiming under the R&D Expenditure Credit regime.
- Consider contacting HMRC to request deadline extensions to preserve the right to make R&D claims if the ability to gather the necessary information is affected by COVID-19.
- It is important to consider the interaction with the Government support mechanisms (which may be Notified State Aids) on the relief that may be available. This should be considered on a case-by-case basis as companies using these mechanisms may be precluded from claiming under the SME R&D tax credit scheme.
- Many businesses are facing challenges with traditional operational models and others are pivoting to support the reaction to the COVID-19 pandemic. It is quite possible that changes to activities could be qualifying projects for R&D tax credits / R&D expenditure credits.
- Review your Patent Box position in light of any expected losses in 2020 – there are potentially adverse consequences of incurring Patent Box losses and it is possible to elect out of the regime.

How KPMG Can Help

KPMG’s Incentives Practice has been operating since the inception of the UK R&D tax schemes in 2000 and are a founder member of KPMG’s Global R&D Incentives Practice.

We have highly skilled and experienced individuals in our team. We are experts in not only the taxation and accounting issues, including dealing with HMRC but we also have

a team of engineers and specialists to assist with the identification of R&D activities.

KPMG has the technological capability and resource to prepare R&D claims remotely from start to finish and can help companies deliver claims despite the restrictions in place for COVID-19.

For further information
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Produced by: KPMG’s Creative Services. Publication Date: April 2020. (6184)