

Innovation reliefs and incentives

Financial Services industry

Research and Development (R&D) and Patent Box incentives can help financial services (FS) companies reduce the costs associated with their IT development activities.

R&D regime – what is available?

The Government's R&D incentive schemes are designed to recognise and reward companies incurring expenditure on R&D projects.

From 1 January 2018 qualifying expenditure attracts:

- An R&D Expenditure Credit (RDEC) of **12%** (taxable) for large companies; or
- An additional tax deduction of **130%** of the expenditure for Small and Medium-sized Enterprises (SMEs).

In addition, capital expenditure on assets for R&D use, or to provide facilities for R&D, can attract a 100% first year deduction.

R&D incentive claims can include staff costs, payments to contractors or vendors supplying personnel, software licences and utility costs.

What projects can qualify?

Examples of typical R&D projects in FS include:

- Creating technology to provide enhanced workflows and business processing capabilities, developing risk management systems, data analytics, customer management systems, data warehouse solutions.
- Development of new or improved technical solutions to meet new or evolving regulatory requirements.
- Technical remediation work to modernise legacy technologies.
- Development of internal or customer facing cloud-based platforms.
- Resolving challenges in respect of data security and confidentiality, or performance issues due to scale of systems and data.



What is the benefit? Example for RDEC claim:

- £10 million of qualifying expenditure.
- This will deliver a cash benefit to the company of £972,000 (assuming a 19% corporate tax rate).
- This is based on staff and contractor costs incurred on R&D activities.



What is R&D for tax purposes?

R&D for tax takes place when a company is:

Seeking to achieve an advance in science or technology.



Through the resolution of scientific or technological uncertainty.

Why is R&D relevant to FS groups?

We have seen an increase in banking, insurance, investment management, and other businesses in the FS sector identifying and successfully making R&D claims with our specialists' help.

The industry is under intense pressure due to challenging trading conditions, increased regulation, and cost pressures. Technology often plays a key role in businesses' strategies to tackle these issues.

R&D incentives offer a solution that can assist with reducing the costs of IT programmes.

We have a dedicated innovation reliefs team that can assist you in identifying qualifying projects, undertaking eligibility assessments, calculating the appropriate level of claim, submitting technical documents to HMRC to support the claim and finally, assisting in any HMRC queries that may arise.



What is the Patent Box?

The Government's Patent Box incentive regime is designed to increase innovation and the number of highly skilled jobs in the UK.

- The regime provides an effective **10%** tax rate on profits from qualifying Intellectual Property (IP).
- A range of IP relating to the sector can qualify including: patents, supplementary protection certificates and certain marketing authorisations.
- Company's have a two year window from the end of the accounting period to submit claim.
- Patent Box complements R&D incentive claims.

How do you qualify?

The company will need to:

- Own or exclusively licence qualifying IP.
- Meet a development test in relation to the innovation. Under the old rules this test can be met at group level; under the new rules the Patent Box company itself must meet the test.
- Meet an active ownership condition.

What can qualify?

- Product sales, patent royalties, income from the sale of patents, infringement income.
- Notional royalties on processes or services.

Next Steps?

The Patent Box regime has changed from 1 July 2016. Ongoing points to consider, include:

- Can you still claim under the old regime?
- How does the new regime affect your existing claim and do you have systems in place to collect the information required?
- Can you protect and optimise your existing claim under the new regime?

Example of KPMG support:

- KPMG have helped clients undertake feasibility studies to examine the potential to access the Patent Box regime, including any changes required to maximise benefits.
- Our work has included patentability reviews through our strategic alliance with Mathys and Squire (IP firm), and subsequently clients have gone on to apply for patents.
- Provided assistance to undertake detailed mapping of income streams to patentable technologies.
- Provided guidance to make the best use of the regime going forward including its interaction with the R&D incentives rules.
- One client had an expected benefit of over £2 million in the first two years.

We are available to discuss your historic R&D and Patent Box claims or your potential to make claims under these regimes if you aren't currently doing so. We can also work with you to improve your claims process for previous, current and future periods.

KPMG has a large R&D and Patent Box team of experienced IT technologists, tax and accounting professionals that have successfully worked on claims in the FS sector. Our methodology has been tried and tested and is designed to meet business needs in order to help future-proof claims. We have an established track record and have extensive experience liaising with HMRC to agree approaches to the preparation of claims and this is an area where we can help to mitigate risks upfront.

For an initial discussion or more information, please contact:



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