

UK R&D Tax for SMEs for expenditure incurred from 1 April 2023

What do the changes mean for companies claiming R&D tax relief under the SME regime?

- SME additional deduction reduces from **130%** to **86%**
- SME repayable credit rate reduces from **14.5%** to **10%**
- For R&D-Intensive SMEs repayable rate retained at **14.5%**, these being companies with qualifying R&D expenditure of **at least 40%** of total expenditure

What do the changes in legislation mean for large companies?

- RDEC rate increases from **13%** to **20%**

How does this fit in with the corporation tax rise to **25%**?

- The net benefit of the deduction reduces from **24.7%** to **21.5%**
- The cash back rate reduces from **33.35%** to **18.6%**
- For R&D-intensive SMEs, the cash back rate reduces to **27%**

How does the RDEC rate increase fit in with the corporation tax rise to **25%**?

- The net benefit increases from **10.53%** to **15%**

What do the other changes expected to come into effect for accounting period beginning on or after 1 April 2023 mean for companies?



The qualifying expenditure will be extended to include certain **digital data licences and cloud computing services**.



The definition of eligible R&D activities has been updated to **include pure mathematics**.



For **accounting periods beginning on or after 1 April 2024**, the relief will be **refocused towards innovation undertaken in the UK**, meaning for any Externally Provided Workers costs the company will need to demonstrate that PAYE/NIC is operated and for Subcontractor costs the company will need to demonstrate the work was undertaken in the UK. There is only a limited set of circumstances in which work undertaken overseas will qualify.

What do the other changes expected to come into effect for accounting period beginning on or after 1 April 2023 mean for companies?



New claimants, or those that have not made a claim for three years will have to notify their intention to make a claim within 6 months of the end of the relevant tax accounting period.

For all claims submitted on or after 1 August 2023, a new digital form will be mandated



New digital form will be mandated to be submitted before or at the same time as the claim providing various details, including qualifying expenditure, number of projects claimed for, and a mandated number of project descriptions.

In addition, companies will need to provide details of R&D advisers and sign off by the responsible individual at the company.

Actions to consider for SMEs

01

It is important to revisit cash flow forecasting and runway projections due to the possible cashflow implication of the changes.

02

Consider finalising the company tax return sooner to accelerate receiving the R&D benefit.

03

Review forecasting and projections to factor in the benefits of cloud computing and data costs post-April 2023.

04

Review organisational strategy and the location of R&D activities.

05

Start considering documentation requirements and continue to maintain contemporaneous records.



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