



Look deeper.
Seize the opportunity.
R&D Reliefs:
Technology, Media and
Telecommunications

Global Investment and Innovation Incentives (Gi3)

Companies of all sizes can secure significant cash benefits from their innovation activities through R&D tax relief. However, preparing a claim correctly requires a thorough understanding of the specific definition of R&D for tax purposes and the company's underlying technological developments.

Technology underpins almost every function within modern organization enabling businesses to operate more efficiently; deliver new or improved products and services; or become more competitive.

The constantly evolving Technology, Media and Telecommunications ("TMT") sector is driving innovation. Current trends include technical advances in big data, machine learning, artificial intelligence, cloud computing and technology transformation.

However, qualifying R&D can exist in any field of science or technology.

Deloitte provides expertise and support to guide companies through a proven three step process to determine qualify as 'R&D'.



Determine the activities that qualify at R&D?



Identify and calculate the associated costs for doing the R&D



Document the claim for presentation to HMRC

What qualifies as R&D?

R&D for tax purposes takes place when a project seeks to achieve an advance in science or technology. The activities which directly contribute to achieving this advance in science or technology through the resolution of scientific or technological uncertainty are R&D.



The TMT industry is one of the largest sectors claiming R&D relief in the UK. However, it is also one of the most difficult to assess due to the speed at which technologies change, are shared in open-source communities and move from being a breakthrough to standard practice.

We recommend reviewing projects against the R&D eligibility criteria whenever you are developing something that is new or improved, even if you are starting with a commercial off-the-shelf tool and technology as a baseline.

Our team of specialized technologists will assist you to work out whether you can make a claim and, if so, how much of the following categories of expenditure will qualify.



* can be claimed for income years starting on or after 1 April 2023.

UK R&D relief programs and benefit...

In the UK there are two R&D relief programs available. Both programs share the same definition of R&D, however the expenditure categories you can claim; the benefit rates available; and some of the claim preparation and eligibility assessment mechanics vary between programmes.

Relief name	R&D Tax Relief for SMEs	R&D Expenditure Credit (RDEC) for large companies
Company profile	<p>You qualify as an SME if you have:</p> <ul style="list-style-type: none"> • less than 500 staff; AND • a turnover of under €100 million OR a balance sheet total under €86 million <p>Entity grouping provisions apply, including those located outside the UK.</p> <p>If your company has external investors you may need to include the figures of connected companies and partner companies when you work out if you're a SME.</p>	<p>Available to any eligible entity that exceeds the SME thresholds and to SMEs with certain expenditure that does not qualify for the R&D tax relief for SME's.</p>
Headline rate	<p>The SME additional deduction rate is 86%, rate of SME payable credit rate for surrenderable losses is 10%.</p> <p>The tax credit rate for SMEs meeting the R&D Intensity condition would be 14.5%. An SME will meet the R&D intensity condition if its ratio of R&D expenditure to its total expenditure is 40% or more.</p>	<p>Expenditure credit is calculated as a percentage of your qualifying R&D expenditure:</p> <ul style="list-style-type: none"> • 13% from 1st April 2020 up to and including 31st March 2023 • 20% from 1st April 2023
Calculation Example for R&D Spend of £100,000	<p>After tax benefit:</p> <p><i>Profit making SME:</i></p> <ul style="list-style-type: none"> • Pre-31 March 2023: £24,700 • From April 2023: £21,500 <p><i>Loss Making SME:</i></p> <ul style="list-style-type: none"> • Pre-31 March 2023: £33,350 • From 1 April 2023: £18,600 <p><i>Loss Making R&D Intensive SME:</i></p> <ul style="list-style-type: none"> • Pre-31 March 2023: N/A • From 1 April 2023: £26,970 	<p>Tax Credit:</p> <p>Pre-31 March 2023: £13,000 From 1 April 2023: £20,000</p> <p>After tax benefit:</p> <p>Pre-31 March 2023: £10,530 From 1 April 2023: £15,000</p>

Example R&D project areas:

Development of a new security systems and architecture, such as the capability to pass sensitive data between public and private clouds without a significant negative performance effect

Appreciably improved process automation and virtualization where robotics, industrial internet of things, digital twins and 3D or 4D printing combine to streamline routine tasks and accelerate time to market

Development of appreciably improved data compression or streaming software to render high quality video on a variety of end computing devices (mobile, PC, Smart TV etc.)

Development of improved 5G and 6G telecommunications networks, including associated hardware and software components

Development of more sustainable computing technologies and Green Tech

Development of AI systems that train machines to recognize patterns and interpret and act on those patterns using unique combinations of inputs such as real-world data, including videos or images (using computer vision), text (through natural-language programming [NLP]), and audio (using speech technology)

Development of new or improved software, method or techniques to enable end users to access complex functions contained within corporate systems and repositories via distributed computing devices such as mobile phones and tablets

Development of distributed infrastructure systems, combining cloud and edge technology, to move computing further to the edge of networks to reach data hungry devices

Development of advanced content management systems, integrated with social media channels

Developing functionally rich online offerings incorporating virtual or augmented reality technologies

Recent changes...

Cloud Computing Services, Data Licenses & Pure Mathematics

To incentivise R&D using modern computational approaches, the scope of qualifying expenditure has been extended to include 'digital data licenses' and 'cloud computing services'.

Updated definition of R&D to include mathematical advances in and of themselves.



Compulsory Online Submission of R&D Claims from 1st August 2023

HMRC require all R&D claims filed after 1 August 2023, regardless of year end or accounting period, to be submitted online via the gov.uk portal.

Deloitte will aid your tax team to find the most efficient means to file claims on the new portal.

Other changes:

Taking effect for income years commencing on or after 1 April 2023:

- Advanced notification of a claim is required within 6 months of year end where a company is making their first claim or has not made an R&D claim within the last three claim periods.
- If a company ceases to be regarded as 'going concern' solely because of the transfer of a trade out of the business, but it is otherwise financially viable, the company will still be able to claim R&D relief.

Administrative updates

- If the 'Additional Information Form' is not submitted prior to filing the company tax return the R&D claim is considered invalid."
- HMRC provided with the power to remove the R&D claim from the company's tax return where it believes a claim was made "in error".

Other matters still under review:

- Plans to refocus R&D reliefs towards innovation in UK, by limiting the relief for subcontracted work and cost of externally provided workers deferred.
- Consultation to be undertaken to consider whether the RDEC and SME R&D relief should be combined under one umbrella programme.

The Deloitte difference

We understand the global dynamics that affect the funding of investment and innovation strategies. Our process ensures we have a holistic understanding of your business to identify new opportunities to improve your operational performance.

Globally connected R&D reliefs team

Deloitte's global network can help you access innovation incentives wherever your operations are located. Our claim review methodology and enabling technologies are consistent across global jurisdictions. We produce R&D claims with global best practice incorporated.



Technology enabled R&D consulting

We leverage technology to minimise the time and input required by your IT and finance teams preparing information to support an R&D claim. We utilise the time saved by technology to look deeper into your claim, improving substantiation and often the claim value. Ask for a demo to see how our software can automate aspects of your claim and provide a clear, real-time view of current and future claim opportunities.

Experts you can count on

Deloitte has the largest team of experienced IT professionals, software engineers, certified cloud practitioners, data scientists and machine learning specialists advising companies about R&D reliefs in the UK. We can rapidly understand your technologies and projects so we can focus our time on deeper conversations about qualifying activities.



Insights that help manage claim risk

Deloitte is a founding member of the UK Government's R&D consultative committee and participates in policy discussions about the Government's Innovation agenda, including how to create high value IT jobs and intellectual property in the UK.

The R&D relief programs are continually evolving and IT based R&D projects require more analysis and substantiation than ever before. Our experience means we can gather the specific information relevant to support your claim and help tailor your existing processes to substantiation R&D claim details as projects are undertaken.

360° innovation funding advisor

In addition to assisting with R&D tax relief our market leading team can help with the following services:



Environmental, Social & Governance (ESG)

ESG initiatives often require R&D investment to create more sustainable and carbon neutral products and services. We can help you access R&D funding and track how this investment positively impacts your ESG performance.



Patent Box

The UK patent box provides for a corporation tax rate of 10% on profits derived from the exploitation of qualifying patents. We help companies create efficient processes and methodologies to identify eligible patents, the relevant profits from these patents and perform the calculations to apply the reduced rate of tax to those profits.



Intellectual Property Law Advisory

Deloitte Legal in the UK brings together over 350 lawyers, consultants and technology experts to help you manage your intellectual property ecosystem and enforce your intellectual property to digital content, trademarks, patents, software data licenses, branding and trade secrets.



R&D Tax Controversy

Deloitte's tax dispute resolution teams include former tax authority officials and alternative dispute resolution professionals. We can support you at every phase of the tax dispute resolution cycle.



Location Strategy

Deloitte's Real Estate and Location Strategy team drives informed, transparent, and smart location decisions including the negotiation of optimal economic incentive program across the full landscape of facility types and operations. We serve as the foremost advisor regarding global location strategy, site selection, footprint optimization, and market entry decisions for the world's leading business enterprises.



Accelerated Tax Depreciation

Deloitte's UK Tax Depreciation team works with TMT businesses to identify available tax reliefs, such as the annual investment allowance program and R&D Allowance program, on the acquisition or development of tangible and intangible fixed assets. The Tax Depreciation landscape in the UK is complex with a wide variety of reliefs available to businesses. Our team has a methodology that leverages the knowledge gained making R&D tax relief claims to further improve tax depreciation claims.

Contacts



Paul Clay

Partner

+44 207 007 5069

pclay@deloitte.co.uk



Gareth Newport

Director

+44 7493 720 097

gnewport@deloitte.co.uk



Amit Agarwal

Associate Director

+44 20 7007 2375

amityagarwal@deloitte.co.uk



Opeoluwa Eluwole

Associate Director

+44 20 8039 7445

oeluwole@deloitte.co.uk

www.deloitte.co.uk/gi3

We believe that business needs to innovate to grow, and by harnessing our passion for technology, we help our clients receive appropriate reward for their innovation activities.



This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2023 Deloitte LLP. All rights reserved.

Designed by CoRe Creative Services. RITM1383376