

A Guide to R&D Tax Credits for Creative Businesses



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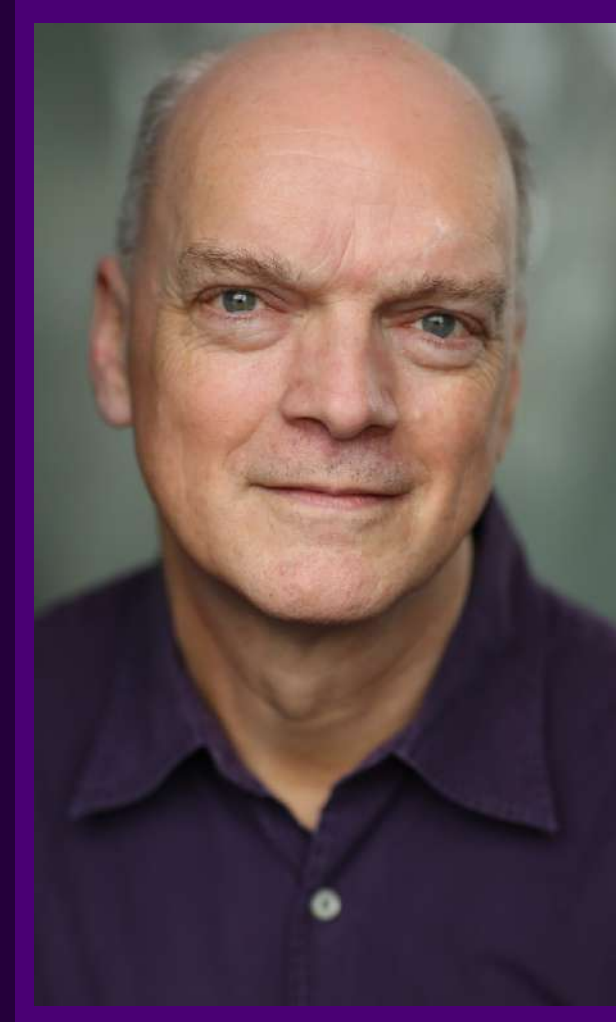
About the author

Alex Redmond is a London-based accountant who works with many innovative and creative businesses. And he loves it.

With some 20 years experience in design-led manufacturing industries, Alex's aim is to enable small and medium sized companies to take advantage of some of the financial analysis and planning techniques used by large innovative businesses. Alex joined Artisan Accounts 10 years ago, and over the years the business has grown into the bustling and diverse team that it is today, all sharing the same ethos and commitment to our clients.

You will find Artisan Accounts featured in The Business Owner's Guide to the UK's Best Accountancy Practices. As the winner of the AVN "Excellence in Technology" award in 2016 might suggest, Artisan Accounts specialises in working with creative entrepreneurial businesses who are comfortable with modern, digital collaborations to enhance their business. In 2020, Artisan Accounts was one of the #SmallBiz100 for Small Business Saturday.

As well as keeping abreast of the latest tax incentives and reliefs, Artisan also works with its clients to help manage their businesses and achieve their long-term objectives.



Why I wrote this book

“At Artisan Accounts we work with many SME's who are using innovative techniques to advance their business, improve their profits and streamline their processes, little realising that sometimes those activities would qualify for R&D Tax Relief. I hope that this short book will help more SMEs to benefit further from the work they are already doing in-house.

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R&D tax credits for creative businesses

R&D Tax Credits tend to be an under-utilised source of income for small businesses. Most people imagine that R&D means lab coats or complex software. It's true that it must be related to science or AI, however, it can be surprising to see the breadth of what constitutes R&D for the purposes of making a claim and it can include investment into technology and IT systems.

We've created this book to explain what R&D Tax Credits are and how you could be able to access them for your business.

What are R&D tax credits?

R&D Tax Credits are a government grant that are available to small and medium sized businesses that employ innovative, cutting edge and sometimes disruptive methods to improve processes, services or products and increase revenue streams.

Businesses can use the funding they receive if they are successful to invest further into the process, service or product they are innovating.

In addition, receipt of an R&D grant can be seen as a sign of confidence in a business by other investors and improve its competitiveness in securing other funding.

Eligibility criteria

According to the government website, your business could be eligible if “an R&D project seeks to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty.”

This can include making new products, services and processes or making identifiable improvements to existing ones.

There are other criteria you will need to meet, but this will be the main test in regard to whether your innovations count as R&D.

Determining your category

In the scheme businesses are divided into categories depending on size. To meet the criteria for SME R&D tax credit scheme your business should:

- Employ fewer than 500 people
- Have an annual turnover that is less than €100 million or Gross Assets of less than €86 million
- As the vast majority of UK businesses fall within this category, the rest of this guide will focus on the SME scheme

Mandatory Information Required

Your claim must include the following information:

- A description of the R&D you are claiming for
- A full breakdown of qualifying costs

In addition:

- A senior officer of the company must officially sign off the claim
- Details must be provided of any agents who advised on the claim

Pre-Notification

One of the main recent changes made to R&D tax credits from 1st April 2023 is that a company will need to pre-notify HMRC that they are making a claim if:

- They are a first-time claimant, or
- They have not made any claims in the past 3 years

This notification must be made within six months of the end of the period for which the claim is being made. It's early days, but all indications are that HMRC are going to be strict about this, meaning that you will need to plan further ahead if you want to make a claim.



What costs you can include in a claim

Expenditure that can be included in your claim include:

- staff costs
- software costs
- utility bills
- carrying out experiments and trials
- the running of equipment

For periods beginning after 1st April, 2023 cloud and data costs can be included. These include:

- data storage
- hardware facilities
- operating systems
- software platforms

Costs should align directly with the R&D being claimed for.

How much you could claim for

Businesses in profit could claim up to 21.5% of their R&D expenditure, while for businesses breaking even or in the red, there's a potential tax rebate equivalent to 18.6% of your qualifying spend.

Loss-making R&D intensive companies might be able to recover up to 27% of their R&D spend.

Rebates for loss-making companies are restricted to £20,000 plus 3 times the company's annual PAYE bill.

What can't be included in a claim?

There are restrictions on work not done by employees of the company.

- You can claim 65% of the cost of Externally Provided Workers, where they are provided by an unconnected party of for work outsourced to a third party
- The restriction does not apply to workers supplied by a connected party but there are other factors that influence the amount of the claim

From April 2024 intends to disallow most work carried out abroad.

HMRC outlines what costs qualify in their guide to [Research and Development tax relief for small and medium enterprises](#).

Stages of claiming R&D tax credit

- 1** Eligibility - Analyse your business and innovations that you develop. We can work with you to identify steps you are taking that could be eligible. It's not always software development or AI!
- 2** Notify HMRC of your intention to submit a claim. After 1st August 2023, you must submit additional information to support your claim.
- 3** Define the nature of your innovation - Create a report that explains the nature of your claim, this is called a technical narrative.
- 4** Assemble the financial claim - We can work with you to create the financial information you will need to support your claim. This will include costs such as wages (internal and external), software, resources and overheads involved in developing the innovation.
- 5** Prepare the submission through the Corporation Tax process. We can make the submission as your agent and advise you on requests and contact from HMRC.



FAQs

What if my business has received another grant?

You may still be eligible to claim for R&D tax relief, even if your business has already received a grant or subsidy, but restrictions could also apply.

How is the grant paid?

If your claim is successful you could receive your grant either as a reduction in your tax bill, if your business is profitable or a tax rebate if it's loss-making.

What kind of projects qualify for R&D tax reliefs?

HMRC has provided guidance on the kind of projects that could qualify. If you're in doubt, get in touch and we can help you evaluate your situation.

Is there an annual deadline for making R&D claims?

No, you can make a claim at any point in the year, but within two years of the end of the accounting period to which it relates.

What's in the small print?

As usual in the world of tax, there are exceptions and restrictions. Always get advice about your specific circumstances - don't be put off until you've checked it out.

How do we prove our project is eligible?

When you make your application you will be asked to explain your project and its purpose. Amongst other information, this should include details of how it advances the field, "overcomes uncertainty", or what other attempts have already been made to resolve the problem etc. You can find further information in HMRC's guide to Research and Development tax relief for small and medium enterprises.

How long will it take to receive the grant?

If successful, you should receive your tax credit within 40 days of submitting your claim.

Useful links:

<https://www.gov.uk/guidance/corporation-tax-research-and-development-tax-relief-for-small-and-medium-sized-enterprises>

<https://www.gov.uk/guidance/corporation-tax-research-and-development-rd-relief>



R&D tax credits for creatives

We hope that you have found this book useful and that it has answered some of your questions about R&D Tax Credits.

We could only ever give an overview of the relief here, so if you have any questions about your specific situation and whether you qualify to apply, just get in touch. We'll be happy to help in any way we can.

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