

What is the benefit of claiming R&D tax credits?

Large company

- 500 employees
- €100 million turnover
- €86 million balance sheet

Benefit

- 11% taxable credit with earnings before interest and taxes (EBIT) impact.
- Approximately 9% cash back for non-tax paying businesses.
- Approximately 9% offset of tax liability.

Complexities

- The R&D expenditure credit (RDEC) forms part of the company profit calculation, which means the claim has to be prepared as part of the audit process.
- The lower benefit afforded by the RDEC scheme can lead to a limited return on investment due to the cost of work for preparing a claim.

SME with grants

Less than:

- 500 employees
- €100 million turnover
- €86 million balance sheet

Benefit

- A lot of companies get caught out here! The benefit is circumstantial for this type of business.
- If the work is state notified aid and subcontracted to a third party, there is no benefit.
- If the grant falls outside of the state aid restrictions, the benefit could be somewhere between that of an SME and a large company.

Complexities

- Claims needs to be divided between funded (RDEC) and unfunded (SME) elements.
- Two claims will need to be prepared in parallel to prevent errors.
- RDEC claims are one third less beneficial than SME and the qualifying costs are restricted.

SME

Less than:

- 500 employees
- €100 million turnover
- €86 million balance sheet

Benefit

- 33% cash back from surrendering losses.
- 25% offset of tax liability.

Complexities

- Small companies can be treated as large for R&D purposes if there is a third party company with a common majority shareholding.
- This is typically in private equity houses, where the funder takes a majority stake.

