Research and Development Tax Credits

Patent Box

Paul Bray
Partner
Smith & Williamson LLP

@SMEservices_S_W
#SME
Disclaimer

This seminar is of a general nature and is not a substitute for professional advice. No responsibility can be accepted for the consequences of any action taken or refrained from as a result of what is said.
Introduction

• Research and Development ("R&D")

Tax relief on qualifying expenditure – possible "cash back"

Two schemes – ‘SME’ and ‘Large’

• Patent Box Regime

10% tax rate anyone?
R&D

Research and Development

investigative activities that an
ewn products or procedures in
innovations and improvement
Market research is one of the
Research & Development ("R&D")

What is it? A project that seeks to achieve:

• “an advance in science or technology through the resolution of uncertainty”

• Improvement of existing products, processes or services or devising new ones

• Innovation!
Research & Development ("R&D")

- HMRC Statistical report August 2013 - only 9,900 SMEs claimed R&D in 2011/12

- Not just technology sectors, anyone:
  Seeking to resolve technological uncertainties
  Seeking to make technological advancements
  ....... as long as an advance is sought (even if not achieved or fully realised)
Research & Development ("R&D")

What costs qualify?

- Employee and agency costs
- Software and consumables
- Subcontracted expenditure (only SMEs)
- Certain indirect expenditure
- No minimum spend (from April 2012)
Research & Development ("R&D")

Large scheme

- > 500 employees, and
- Turnover > €100m, or
- Balance Sheet Gross Assets > €86m

Complex rules re linked / `partner’ enterprises owning or being owned 25% of, or by, the claimant company
Research & Development ("R&D")

Large scheme

- 130% tax relief – 23% tax rate (13/14); benefit is tax relief of further 7% of qualifying costs

- Expenditure credit

  Optional from April 2013 (Mandatory April 2016)

  ‘Above the line’

  Possible to surrender expenditure credit for refund
Research & Development ("R&D")

SME scheme

- Uplift of 125% – tax relief on 225%
- If loss making, "cash in" the loss at a lower rate for a tax repayment even if no corporation tax paid
Research & Development ("R&D")

SME scheme

- Cash refund in exchange for 11% of tax loss from April 2013 (effective rate 24.75%)
- 14.5% for expenditure from April 2014 (effective rate 32.63% being 14.5% of 225%)
- “Cash In” for payment at 14.5% of R&D losses or wait for 20% relief against profits?
The Patent Box

Patent ownership requirements:
- Rights included
- Development condition
- Active ownership

Profit Calculation:
- Profit apportionment
- Relevant IP income
- Routine expenses return
- Marketing return / small claims election

Other features:
- Streaming
- Patent Box losses
- R&D claw-back
- Anti avoidance rules
- Partnerships & cost contribution arrangements
Patent Box

- Introduced April 2013
- Companies may elect in and (in time) pay 10% corporation tax on profits relating to qualifying patent rights
Patent Box

- From April 2013 effective rate of 15.2% on patent box profits
- From April 2014 effective rate of 13.3% on patent box profits
- Effective rates 12% from April 2015 and 11% from April 2016 on PB profits on patent box profits
- Full 10% rate from April 2017
Patent Box

- Qualifying patents

UK and European patent office patents

Outright ownership OR exclusive licence over the patents provided meet other conditions:

(a) Development and (b) Active ownership
Patent Box

• Qualifying income. Need to arrive at relevant IP profits

• Five steps:

1 to 3 – apportion profits according to qualifying and non-qualifying income

4 – deduct notional ‘routine’ expenditure

5 – deduct notional marketing/brand royalty.
Patent Box

- Planning

Current or existing products worth patenting?

Method of calculating PB profits

Group licensing arrangements

Speak to a tax advisor!
Summary

R&D

• Enhanced deduction
• Claims required within 2 years of end of AP
• Numerous other rules (going concern condition)
• Have a look, it won’t hurt........
• Don’t miss out!
Summary

*Patent Box*

- From April 2013 effective rate of 15.2% on patent box profits
- From April 2014 effective rate of 13.3% on patent box profits
- Effective rates of 12% on patent box profits from April 2015 (11% from April 2016)
- Full 10% rate from April 2017
R&D Tax Credits
Patent Box

Paul Bray
Smith & Williamson LLP

paul.bray@smith.williamson.co.uk
Direct Tel: 0117 376 2169
Twitter:@SMEservices_S_W
Smith & Williamson LLP
Regulated by the Institute of Chartered Accountants in England and Wales
for a range of investment business activities.
A member of Nexia International

The word partner is used to refer to a member of Smith & Williamson LLP

Portwall Place, Portwall Lane
Bristol BS1 6NA
Tel: 0117 376 2000  Fax: 0117 376 2001
www.smith.williamson.co.uk