2014 BUDGET AND R & D TAX RELIEF

The facts

The rate of payable tax credit for SME companies increases from 11% to 14.5% from 1st April 2014. From that date, for every £100 of qualifying costs, a repayment of up to £32.63 is available.

This will apply to companies who carry out qualifying research and development activities that do not have corporation tax liabilities. That may be because they are loss making or they have other allowances available such as capital allowances which exceed their profits.

Impact

For companies with a 31st March year end, the change will take place for the accounts for the year ended 31st March 2015. For other companies, the change will take place in the next year end after 31st March 2014.

Planning points

Where a company year end spans 31st March 2014, the method used to allocate how much of a loss benefits from the 11% rate and how much from the 14.5% normally allocates firstly to the 11% rate. If substantial sums are involved, it would be worth considering a change of accounting date to allow for maximum advantage to be taken of the higher 14.5% rate.

Companies often pay a low salary and then pay dividends to shareholders/directors. This should be reconsidered from 1st April 2014 and the interaction with NI costs needs considering.

Company pension contributions in respect of staff involved in R & D are included in the calculation of qualifying expenditure. A review of the amounts paid in for these staff should also be undertaken.

Example

For the year ended 31st March 2014, for every £100 of qualifying R & D expenditure, tax relief is given at 225% being £225. The tax credit at 11% gives a repayment of £24.75.

For the year ended 31st March 2015, for every £100 of qualifying R & D expenditure, tax relief is given at 225% being £225. The tax credit at 14.5% gives a repayment of £32.63.

That increases the amount payable to the company by 31.8% on the same level of expenditure.

The above has been prepared by Newtons Accountants Limited on 20th March 2014 as an initial guide to the proposed new legislation. Those proposals have not yet been passed into law. This guide is not intended to be acted on without specific additional advice.