

Why do some R&D tax claims go wrong?

HMRC has a responsibility to ensure that individuals and businesses are paying the correct amount of tax and claim the correct amount of tax benefits, and this applies to R&D tax claims too.

To perform this role, HMRC carry out compliance checks to make sure a company's tax return is correct. Some checks are made on a random basis, and some are triggered because of specific entries on the company's tax return of financial statements.

Where are the risks? There are several reasons why HMRC may seek further clarification on a company's claim for R&D tax relief.

1 – Make sure the technical aspects are clear and detailed.

On initial review of the company's website, it may appear to HMRC that the company is not from a sector that would normally be associated with undertaking research and development activities that meet the qualifying criteria of the scheme.

OUR TIP: Make sure each claim you submit is accompanied by a technical narrative which robustly and concisely provides evidence of why the work undertaken by your company is eligible for R&D tax relief. This should clearly summarise the industry technological baseline and the development work undertaken by the company to resolve specific technological uncertainties encountered when trying to develop an improved solution. In sectors with strong eligibility, this is more easily demonstrated. However, for some companies, the field of science being advanced may be less obvious and therefore the requirement for a convincing presentation of the technology can be crucial to the acceptance of the claim. In the absence of this narrative, HMRC is likely to knock on your door for answers.



After being told by a very reputable company that we couldn't apply for R&D tax credits, we then met ABGI-UK on their stand at a business trade show and they insisted we could apply. The next thing a cheque arrived from HMRC! It really was that straightforward. Let them take the strain, it really is worth every penny.

| MATTHEW TUTT
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2 – Make sure the numbers reflect the R&D.

Your claim can be challenged by HMRC when claims costs have not been compiled in accordance with the legislative guidelines. For example, the impact of reported grant income in a set of accounts on the R&D claim, company structure and ownership, accounting policies when dealing with revenue and capital expenditure and the basis of compilation of project costs and assessment of staff contributions and costs incurred within a commercial project, as opposed to limiting the assessment to a defined R&D project. (phfew!)

OUR TIP: It is imperative that sufficient granularity can be provided to not only support the R&D claim included on the tax return, but also to reassure HMRC that the costs have been compiled correctly.

3 – Nothing gets HMRC's attention quicker than big numbers!

Claim inconsistency can also trigger a compliance check. If a company with a track record of making successful claims suddenly makes a significantly larger claim than usual for R&D tax relief then this may give rise to HMRC raising a compliance check, especially if the financial statements of the company do not fully support the increase in R&D expenditure.

OUR TIP: This risk can often be avoided with a strong technical narrative and a comprehensive costs breakdown to support a claim.

For a free R&D tax credit consultation and analysis of the potential returns you might expect from your projects, contact the ABGI-UK team

About ABGI

ABGI is an international leading tax incentive and innovation management advisor. We help companies accelerate financial performance, innovation and business expansion by capitalising on their R&D and innovation activities, in compliance with all rules and regulations. **Whatever innovation funding challenges you face – in the UK or internationally – we can help.**