

R & D Tax Relief - Qualifying Projects

Qualifying Project Tests

The definition of R&D for tax purposes is based on the generally accepted accounting treatment of R&D and upon detailed [guidelines produced](#) by the Department for Science, Innovation and Technology (DSIT). It includes both work on existing products and in bringing about a new trade or extension to an existing trade.

To help confirm that a project falls within these criteria please provide brief answers to the questions below for each R&D project: -

Project Name:	HMRC Guidance
1. What is the main field of science or technology?	When addressing this point, please provide a brief description of the field of science/technology the R&D project being worked on relates to. Science is the systematic study of the nature and behaviour of the physical and material universe. Technology is the practical application of scientific principles or knowledge. <u>Some activities aren't science</u> Science doesn't include work in the arts, humanities and social sciences (including economics). Mathematical advances are treated as science for these purposes, whether or not they are advances in representing the nature and behaviour of the physical and material universe.
2. What was the baseline level of science or technology that the company planned to advance?	Describe the level of knowledge or capability that existed at the time the project started and what areas the company intended to advance, for example if the intention was to: • Improve an existing material or device, what were its existing features and capabilities • Develop new knowledge in a particular area of science or technology, what was already known not just by the company but more widely as well. The baseline is the knowledge or capability that is in the public domain or is readily deducible for a competent professional in the field. Consider if any patents exist that help define the existing state of technology.

3. What advance in that scientific or technological knowledge did the company aim to achieve?

Provide a description of the advance using the baseline level of science or technology in question 2 as a comparison.

An actual advance in knowledge or capability in science or technology may have physical consequences or may be an increase in overall knowledge. In either case, it must be demonstrated that a competent professional working in the field would recognise it as a significant improvement. It would also need to be shown that the improvement/advance is not something that could readily be resolved by a competent professional.

The improvements may include:

- Creating a process, material, device, product or service that increases overall knowledge or capability
- Improving an existing process, material, device product or service, for example, to save money or reduce waste
- Using science or technology to copy the effect of a current process, material, device, product or service in a new or improved way.

Concentrate on the science and technology
Rather than stating the product, process or functionality that is aiming to be developed, consider what scientific or technological advance is actually being sought.

Focus attention on the project's aim for an advance. This is important in judging whether or not R&D for tax relief purposes is being undertaken because if HMRC see the advance as purely being a commercial one they will not award the relief.

4. What were the scientific or technological uncertainties that the company faced?

Include only scientific or technological uncertainties, for example, the company:

- Does not know if it is possible to create or improve the product or process
- Cannot readily deduce how to create or improve the product or process.

You must also explain the following:

- What is currently stopping you from achieving the advance in scientific or technological knowledge
- Why the R&D represents a technological or scientific uncertainty for the industry, not just your company
- Explain why a skilled/experienced professional working in the field would be uncertain as to how to achieve the advance. This helps demonstrate that the uncertainties are not routine problems that can be easily sorted.

When addressing the above you need to bear in mind the following:

Did you really encounter "uncertainty"?

Scientific or technological uncertainty exists when knowledge of whether something is scientifically possible or technologically feasible, or how to achieve it in practice, isn't readily available or deducible by a competent professional working in the field.

Not every problem is an uncertainty

But uncertainties that can be resolved through relatively brief discussions with peers are routine uncertainties rather than technological uncertainties. Technical problems that have been overcome in previous projects on similar systems aren't likely to be technological uncertainties.

Explain the uncertainty in the context of the known state of the field of research

It might be publicly known that others have tried to resolve the uncertainties and failed. Or maybe others have resolved the uncertainties, but precisely how it was done isn't in the public domain. In either case a valid technological uncertainty can still exist.

5. How did your project seek to overcome these uncertainties

If the uncertainties were not overcome, explain what happened.

Provide more details about the direct R&D activities that try to resolve the scientific or technological uncertainties, as well as qualifying indirect activities*.

Describe the information in sufficient detail to explain:

- Why the R&D was not straightforward
- The methods planned or used to overcome the uncertainty
- If the uncertainties were resolved, explain how, and if not, explain why not.

To help address this you will need to describe methods used to overcome the uncertainties and the investigations and analysis that took place. This shouldn't be in great detail, but enough to show the R&D process wasn't straightforward.

Describe the successes and failures and the impact of these on the overall project. If the uncertainties weren't overcome, explain what happened.

Remember that the commercial failure of the product or project does not mean that R&D was not present. And if the scientific uncertainties weren't overcome, that can still mean that the work to address the uncertainties can be qualifying R&D.

*Qualifying indirect activities

Certain work that is not R&D, i.e. that does not directly lead to resolving the uncertainty, can be included in the claim where this is a qualifying indirect activity.

This may include:

- creating information services for R&D support, such as preparing a report of R&D findings
- direct supporting activities such as maintenance, security, administration and clerical activities and finance and personnel activities, for the share that relates to R&D
- ancillary activities needed to begin R&D, for example taking on and paying staff, leasing laboratories and maintaining R&D equipment, including computers, used for R&D purposes
- training required to directly support the R&D project
- research by students and researchers carried out at universities
- research, including data collection, to create new scientific or technological testing, surveys or sampling methods, where this research is not R&D in its own right
- feasibility studies to inform the strategic direction of a specific R&D activity