The UK Research and Development Tax Credit Scheme – A guide for architects
This guide has been designed to provide advice to architects on:

• what the R&D tax credit scheme is
• how it could bring them significant benefits
• whether it applies to them
• how they can begin the process of making a claim

Like many tax schemes, the R&D tax credit scheme may at first seem complex and difficult to understand. This may deter architectural practices from claiming the tax relief they are entitled to.

This guide therefore explains in clear terms how the scheme works and how to take advantage of it.

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Foreword from Angela Brady, RIBA President

UK architects are among the most innovative and creative in the world. They are making an enormous contribution to advances in the science and technology associated with architecture and the wider built environment – as well as creating beautiful and sustainable buildings and places that are improving our quality of life.

Architects should be rewarded for that contribution and encouraged to push the boundaries still further.

The R&D tax credit scheme – which can apply to both large and small architectural practices – is one way of rewarding and investing in architects’ skills and ingenuity.

Yet, many practices who could be receiving relief for corporation tax for the research and development work that they do – either as specific R&D development projects or as part of their everyday work – are not taking advantage of it.

The practical advice in this guide should help all architectural practices understand the tax incentives that exist for research and development; the benefits that they could be enjoying; areas of their work that would qualify; and how to begin the process of making a claim.

Foreword from Professor Murray Fraser, RIBA Research and Innovation Group Chair

Research and development is vital for the growth of and innovation in architecture in the UK. Ours is a knowledge-rich discipline which draws on a wide variety of processes and skills. To ensure that this knowledge base remains world-leading, investment into the future of architecture is needed.

That is why the RIBA Research and Innovation Group are committed to promoting research and development. The Research and Innovation Group develops, supports and disseminates research in architecture and the built environment in Britain and internationally. We champion research undertaken in the architectural community, creating links between practice and academia as well as engaging leading thinkers at a local and international level.

There is a healthy culture of innovation and problem solving among UK architects, which deserves wider recognition. The Research and Innovation Group commissioned this guide on R&D tax credits to help architects access a valuable form of financial relief, and also to encourage UK practices undertaking R&D work to recognise and articulate the contribution they make to the future of the profession.

We hope that as many practices as possible will make use of this tax relief system to push their research contribution even further.
Is your practice liable to corporation tax?  
Then you could be missing out

What is it?  
Each year the R&D tax credit scheme provides some £1 billion in tax incentives to encourage investment in innovation by UK companies. It is one of the most competitive schemes in the world. The more investment is made in research and technology, the greater the benefits to both individual companies and the wider UK economy. It adds value to businesses; it helps them remain competitive; and it makes an invaluable contribution to economic growth.

Put simply, the R&D tax credit system encourages and rewards investment in innovation by allowing costs – mainly for staff – on relevant projects to be claimed back as relief for corporation tax. This can result in substantial savings.

The R&D tax credit scheme began in 2000 and continues to have strong government backing. In the March 2011 Budget, the government announced increases in tax relief under the scheme for small and medium-sized enterprises (SMEs), which applies to R&D spending from 1 April 2012. Following consultation with business and with tax professionals, HM Treasury is also currently considering ways to improve the efficiency and effectiveness of the scheme.

UK architects are among the most innovative in the world. Yet this has not been reflected in take up of the R&D tax credit scheme – only a tiny fraction of the benefits under the scheme is going to architectural practices.

The scheme will not apply to all architectural practices but many who could benefit may be overlooking or unnecessarily ruling out what is the government’s single largest support for business.

As with any government tax scheme, the criteria for eligibility and the process for claiming R&D tax credits can seem complex. This guide is not intended as a blueprint for securing tax credits – but it will help architectural practices to understand the scheme; assess whether it could be worthwhile for them; and, if so, get the process started.

It shows how three architectural practices have applied the criteria for eligibility and successfully used the R&D tax credit scheme to their advantage.

Facts and figures

- the UK’s single largest funding source for business research and development
- nearly £6 billion claimed back by UK companies between 2000 and 2010
- corporation tax relief or rebate of up to 25 per cent of staff costs
- an average £40,000 annual claim for companies that are SMEs
- an average £82,000 annual claim for companies making repeated claims
How much is it worth?
Since the R&D tax credit scheme was introduced in 2000, some 24,000 companies across the
UK have benefited from nearly £6 billion in tax relief. The scheme has increasingly become part
of investment planning for many companies in the wider economy.

The amount of savings to be made from R&D tax credits will depend on the size of your
architectural practice. There are two schemes for claiming relief for corporation tax:

- the Small and Medium-sized Enterprise (SME) Scheme, for companies with under
  500 employees and either of the following: an annual turnover not exceeding €100 million
  or a balance sheet not exceeding €86 million
- the Large Company Scheme

Other factors may also come into play, but, broadly speaking: architectural practices that classify
as an SME can expect to see a return of up to 25 per cent of relevant costs; and larger practices
can achieve a not insignificant saving of around 7 per cent.

Around 30 per cent of claims made each year come from those making a claim for the first time:
the average claim stands at around £40,000. Those making further claims in subsequent
years do even better: companies making six or more claims benefit from an average annual claim
of £82,000.¹

Claims can be made for costs incurred on projects undertaken – and included in accounts – over
the previous two financial years, if your practice spent at least £10,000 total on research and
development in the relevant accounting period. This requirement has now been lifted, so for
projects undertaken from April 1 2012, there is no minimum spend on research and development
before your practice can claim tax relief.

How is tax relief calculated?
The method for calculating the value of tax relief is the same for both the Large Company
Scheme and the SME Scheme, but the percentage figure used is different:

- **Large Company**: multiply the qualifying R&D expenditure by
  30 per cent of corporation tax of 24 per cent (2012); this would result in a reduction
  of 7.2 per cent – or £7.20 for every £100 of qualifying expenditure
- **SME**: multiply the qualifying R&D expenditure by 125 per cent of small profits rate of
  20 per cent (2012); this would result in a reduction of 25 per cent – or £25 for every
  £100 of qualifying expenditure

These rates of relief apply to R&D spending that takes place on or after 1 April 2012. For rates of
relief on prior R&D spending, see HMRC’s online guidance.²

What’s holding architects back?
There has been a marked increase in take up of the R&D tax credit scheme in many industry
sectors that see it as an important source of funding to kickstart further investment – something
that is especially important in the current economic climate.

¹ HM Revenue & Customs, 2010. Report No. 107 – An evaluation of research and development tax credits. [online]
² HM Revenue & Customs, 2012. Research and Development (R&D) Relief for Corporation Tax. [online] Available at
So why is the architectural sector lagging behind?
It could be the result of mistaken perception. There is a commonly held belief among both architects and practice accountants that the R&D tax credit scheme applies only to ‘pure’ research and development disciplines, or to companies that have a formal, established research and development team.

The criteria for eligibility may initially seem more obviously relevant to sectors other than architecture. Many architectural practices, however, are not looking into the scheme’s potential in sufficient detail to be able to make an informed judgement about whether it might in fact apply to them.

A minimal amount of time invested upfront in getting to grips with the scheme could, however, pay substantial dividends.

Do you qualify?
Before reading on and going into the R&D tax credit scheme in more detail, you need to work out whether the scheme applies to you: i.e. it will only apply if you are liable to corporation tax.

If you are not liable to corporation tax – and if you are not directly involved in innovation – the R&D tax credit scheme may not seem relevant. It could still be worthwhile, however, to think how it could be used by those you collaborate with, including your supply chain.

There are also other sources of funding which support innovation and opportunities to cultivate new ideas (see Section 5).
There is much confusion about what constitutes research and development. For tax purposes, the definition of research and development is broad and it can, in some circumstances, apply to what might otherwise be seen as normal day-to-day business.

According to HM Revenue & Customs guidelines, research and development takes place when a project – or a component of a larger project – seeks to achieve an advance in science or technology. Any activity that directly contributes to seeking an advance through the resolution of a scientific or technological uncertainty can be classified as research and development for tax purposes.

**What the official guidelines say**

HMRC uses a comprehensive set of guidelines compiled by the Department of Trade and Industry (DTI) in 2004. The DTI Guidelines (2004) are amplified as part of the HMRC Corporate Intangibles Research and Development Manual. Much of the detail, however, will only be required by tax and finance specialists.

What architectural practices need to know can be summarised more simply. Most important is to be clear about what is meant by ‘advance’, ‘uncertainty’ and ‘directly contribute’.

<table>
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<tr>
<th>Principle</th>
<th>DTI Definition</th>
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| advance   | • create or appreciably improve a process, product or service which incorporates or represents an increase in overall knowledge or capability in a field of science or technology  
• there are no absolute indicators of ‘appreciable improvement’: however, (hypothetic) recognition of ‘appreciable improvement’ by a ‘competent professional’ is regarded as a good starting point; HMRC does not have its own body of industry specialists but relies on companies to determine this |
| uncertainty | • knowledge of whether something is scientifically possible or technologically feasible, or how to achieve it in practice, is not readily available or deducible by a ‘competent professional’ working within the sector  
• includes system uncertainty; scientific or technological uncertainty will often arise when translating something already established as scientifically feasible into a cost-effective, reliable and reproducible process, material, device, product or service |

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What is meant by science and technology
What is crucial, then, is for architectural practices to determine whether past, current or future activities can be classified as science or technology. The DTI Guidelines (2004) set out specific definitions:

- **Science**
  Science is the systematic study of the nature and behaviour of the physical and material universe. Work in the arts, humanities and social sciences, including economics, is not science for the purpose of these guidelines. Mathematical techniques are frequently used in science, but mathematical advances in and of themselves are not science unless they are advances in representing the nature and behaviour of the physical and material universe.

- **Technology**
  Technology is the practical application of scientific principles and knowledge, where ‘scientific’ is based on the definition of science above. These guidelines apply equally to work in any branch or field of technology.

Architectural practices need to assess whether their work has itself directly contributed to an advance in science or technology. Work that is only a precursor to R&D activities carried out by other organisations further along the project timeline does not qualify under the scheme.

There is no official, definitive list of activities that could be regarded as scientific and/or technological. This is intentional and avoids the R&D tax credit scheme from being overly prescriptive.

Some activities are, however, more likely to fall within the category of science and technology than others. These include:

- study of material performance
- development of technical solutions using a combination of products and materials
- development and adaptation of technical solutions in use for a different purpose
- identification of technological improvements to performance of products and processes
- balancing of multi-criteria technical requirements to optimise performance
- design of product connections and interfaces
- development of detailed technical specifications for novel solutions and testing functionality
- prototype design and commissioning (including quality testing and final building)
- advances in software to resolve challenges
- evaluation of existing technology performance of products and processes
- review of functional requirements and identification of design constraints
- design iterations to resolve uncertainty in new technological solutions

This is not an exhaustive list but it will give an idea of the types of work that could well be eligible for R&D tax credits. It also shows that many apply to the kinds of research-based work that UK architects undertake as part of their practice.

Under the DTI Guidelines (2004), ‘science’ does not include work in the arts, humanities or social sciences. Some aspects of architectural projects, such as research into and solutions for room layout to provide social or functional benefits, may therefore fall outside this definition of science and technology. On the other hand, where a technological advance in a product or in performance – for example, in furniture, detailing or services – is needed to deliver a required room layout, this may count as science and technology.
When design becomes research and development
For many projects, of course, architects provide a range of services around the design of a building that do not require innovation or research and development. When, however, the designs developed by the architect are innovative – and can be shown to advance science and technology – their potential for R&D tax credits can and should be explored.

The DTI Guidelines (2004) make clear that when, to achieve a design objective, a scientific or technological uncertainty within a particular project needs to be resolved, the activities needed to do this would qualify as research and development. Design activities that do not directly contribute to the resolution of a scientific or technological uncertainty within a project would, on the other hand, not count as research and development under these terms.

What is important, then, is to demonstrate how design activities have directly contributed to achieving an advance in science and technology. The design stage must involve some resolution of uncertainty to comply – or be a precursor to subsequent analysis and testing of the design, provided that this is undertaken by the same architectural practice.

What costs can companies claim relief on
The main source of costs to architectural practices for research and development will be staff, but other costs may also be eligible.

- **staff:**
  costs of staff directly contributing to the resolution of the uncertainty in question, for example: technical planning; design; testing; analysis; and/or other ‘non-routine’ activities

- **sub-contracted services:**
  costs for sub-contracted services – relief can be claimed on up to 65 per cent of the payment made to the subcontractor; further information relating to sub-contracted staff and staff providers can be found in the HMRC guidance

- **materials and software**
  costs for some materials and software used directly in research and development projects

- **utilities:**
  costs associated with utilities used directly in undertaking research and development; these, however, are usually not significant since they are calculated on a per-head basis only (for staff involved on specific research and development projects)
Looking at the different experiences of three UK architectural practices that have successfully claimed R&D tax credits helps to show how various types of work can be interpreted as research and development.

These three case studies illustrate, in particular, specific provisions as defined within the HMRC guidance – ‘cosmetic and aesthetic effects’; ‘collaborative research’; and ‘subsidised expenditure’ – that will benefit from further explanation.

Research and Development through design: transcending ‘cosmetic and aesthetic effects’

Aedas

Architectural design involves a multitude of factors, including but not limited to the aesthetic quality of a building or structure. For the purposes of claiming tax credits for research and development, it is important to understand which design activities qualify as R&D.

When work undertaken towards achieving a desired design objective consists of improving the aesthetic appeal of a material or product (in the terminology of HMRC, producing ‘cosmetic and aesthetic effects’), and does not involve the advancement of science and technology, this is not considered R&D for tax purposes. However, when achieving an aesthetic effect requires the resolution of a scientific or technological uncertainty, such as developing a new material or building method that was not already known to be feasible, this activity may be eligible for R&D relief.

Equally, other design activities which involve an advance in science or technology, such as the development of new computer modelling software to enable desired design objectives, may qualify as R&D. The highly complex and technological nature of the design process in architectural practices such as Aedas means that there are many examples where achieving design objectives requires resolving a technological or scientific uncertainty.

Guy’s and St Thomas’ NHS Foundation Trust

### The company

**Aedas**

As a leading international practice, Aedas invests in research and leads cross-disciplinary initiatives to develop design methods through computation and parametric tools that help quantify, visualise and manipulate the spatial, environmental and financial factors of a design.

The Aedas R&D Group focuses on three principal areas: computational design, advanced modelling and sustainable design. It leads internal as well as cross-disciplinary industry initiatives, offering thought leadership and driving innovation throughout the practice.

The group creates parametric models and simulations that invite creative input and provide the basis for coordination through interactive representations of a design. This contributes to an understanding of occupancy patterns and perception; energy use of buildings; and the lifecycle impact of early design decisions.

The group’s involvement in all stages of structural, mechanical, spatial and quantitative coordination allows inspired architectural solutions that meet implicit and explicit performance criteria.

### The research

Aedas applied for R&D tax credit relief for the first time for projects carried out in 2007–08, having identified a number of activities relating to computational design:

- development of in-house software
- parametric simulations
- simulation development
- artificial intelligence
- development of specialist tools and methodologies

For projects carried out in 2009, activities were also related to:

- sustainability: analysis tools and methodologies
- linking model geometry to analysis software

### The claim

Aedas coordinated its first claim based on HMRC guidance documents and held a meeting with HMRC staff to identify eligible projects and the cost extraction methodology. There were no issues with the documentation and evidence provided. However, the claim initially did not reach the correct HMRC department, delaying the process. Once the claim was received at the specialist office, it was processed very quickly.

### The verdict

Although the first claim was successful, Aedas felt that involving specialist tax advisors for their subsequent claim meant that they were more efficient. Aedas was able to use a tried and tested template and had support from specialist advisors to guide them through any questions as they compiled the claim.

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Research and development through multi-disciplinary projects: demonstrating ‘collaborative research’

Wilkinson Eyre Architects

The role of the architect has evolved dramatically in recent years. The days when architects simply passed their designs on to an engineering team to be constructed are long gone.

Highly complex major projects often lead to scientific and technological advance through the resolution of an uncertainty. Often those solutions come about through collaboration within a highly skilled, multi-disciplinary team of architects, building services engineers, specialist contractors and other built environment professionals – who all bring their specialist skills and experience to the table.

The boundaries between disciplines are becoming increasingly blurred. Partly as a result of advances in information technology, where architecture ends and engineering begins is less distinct than ever.

Where architects have achieved an advance – whether specifically intended or through a natural progression into scientific and technological activities – there may be an opportunity to consider whether R&D tax credits might apply, including for fee paid projects.

What is needed for a robust claim for tax relief is to demonstrate both technical authorship and also active involvement beyond design principles into direct resolution of a scientific or technological uncertainty.

Gardens by the Bay project in Singapore
### The Company

**Wilkinson Eyre Architects**

Wilkinson Eyre Architects, a practice of around 120 employees, prides itself on an informed use of technology and materials. It seeks to use the latest technology and, drawing inspiration from art and particularly science, to create something new for all its projects.

Its approach is characterised by:

- lightness and use of complex geometry
- use of latest technologies to allow buildings to become more responsive to users and more sustainable
- understanding and incorporating principles of materials science and associated advances
- transfer of knowhow from parallel technologies in other industries

The practice is internationally renowned for its bridge designs, many of which have involved extensive collaboration with engineers.

### The Research

Wilkinson Eyre Architects applied for R&D tax credits for the first time in 2010 after identifying a number of potentially eligible projects:

- development of a bespoke technological design process to enable building designs to have complex, optimised structural forms and cladding
- development of a solar shading system that helps reduce heat gain
- development of complex technological solutions for cooled conservatories, which are among the largest climate-controlled glasshouses in the world

### The Claim

To demonstrate that activities directly contributed to a technological advance, evidence was provided of a clear stake in technical authorship of solutions for multi-criteria components which were developed in collaboration with engineers.

### The Verdict

‘As a company, we’ve always been aware of our desire and ability to incorporate new technological solutions into our approach – but hadn’t necessarily formalised this as a research and development process. As a result, we hadn’t previously considered applying for R&D tax relief.

‘With professional support, we established a shared understanding of the broader meaning of research and development for tax purposes and were able to compile a sizable claim based on historical projects and costs already incurred.

‘The HMRC required some further information to support our initial claim but overall the process was valuable financially and also beneficial operationally – allowing us to step back and think about how we approach R&D.

‘We certainly anticipate claiming through the scheme on an annual basis from now on and would recommend other practices exploring the opportunity.’

– Paul Baker, Director
Research and development as part of fee-paid projects: understanding ‘subsidised expenditure’
de Rijke Marsh Morgan (dRMM)

UK architectural practices have a strong, internationally recognised track record on practice-led research. Much of the most innovative research into design, and particularly technology, does not, however, result from formally identified research and development projects. Rather, it takes the form of ‘hidden innovation’, such as an on-the-job resolution of a technical challenge arising from a fee paid project.

A shift away from ad hoc activities towards a more structured approach – where time is committed to the development of a product or process for future commercial gain – would bring greater benefits to architects. In the meantime, however, it should not deter claims for tax credits for fee paid projects.

Work for a fee paid project can be eligible for R&D tax credits, if it has led to a scientific or technological advance. There are, however, a number of potential contractual relationships between architect and client – all of which can have an impact on the way in which the scheme is applied. It can be a complex issue and in the avoidance of doubt, advice should be sought from a tax professional or HMRC advisor. The following paragraphs set out some of the ways the tax credit scheme may be applied to R&D activities as part of a fee paid project.

The main factor to consider is whether the work undertaken to ‘resolve an uncertainty’ on a particular project is itself subsidised, that is, whether a fee or grant was received to pay for that work.

If it is clear that some of the work undertaken on a fee paid project goes above and beyond the scope of the client brief, it may be possible to show that these activities are not fee paid, that is, they are unsubsidised. They may therefore be eligible for tax relief under the SME Scheme.

If the work undertaken on a particular project is subsidised by a fee, that is, it is part of the client brief and/or the client pays the practice a fee to undertake it, then the costs incurred are not eligible for tax relief under the SME scheme. SMEs may, however, claim tax relief on these activities through the Large Company Scheme, at a lower rate than the SME Scheme.

When R&D work is subsidised by a grant, the rate of relief for which these activities are eligible depends on the type of grant received.

If a project is subsidised by a grant which is a form of ‘Notified State Aid’ (such as Collaborative R&D Grants or Grants for R&D that have to be notified to the European commission), then no expenditure on that project can qualify for the R&D tax relief under the SME scheme. SMEs may, however, be able to claim tax relief on such R&D work through the Large Company Scheme.

For work subsidised by other types of grant, eligibility for either the SME or the Large Company Schemes needs to be assessed on a case-by-case basis by a tax professional or HMRC advisor.

The R&D tax credit scheme actively encourages research and development projects. Even where activities directed towards achieving an advance in science or technology are not in the end successful, time spent on those activities may be eligible for R&D tax credits.
### the company

**de Rijke Marsh Morgan (dRMM)**

dRMM, a practice of 30 employees, has a track record of developing and delivering highly innovative solutions that seek to overcome major constraints within the construction industry. It seeks to combine ingenuity and efficiency, without sacrificing functionality or design. Its approach is characterised by:

- use of new materials, timber in particular, in order to deliver significant carbon reduction in construction projects
- development of a deep understanding of material performance and exploiting associated opportunities
- overcoming constraints within the construction industry and improving process, performance and efficiency
- elevating the role and influence of architecture within construction.

### the research

dRMM completed their first claim for R&D tax credits in 2011 after identifying eligible activities relating to:

- technological solutions to overcome wholesale use of cross-laminated timber in education design
- timber engineering and geometry
- technological solutions to maximise the performances of deaf-appropriate space

### the claim

dRMM conducted much of its research into the use of cross-laminated timber in parallel with a major educational project. Alongside the scheme design, the practice devoted its own resources to resolving the technological uncertainties associated with the use of the material. This allowed it to demonstrate clearly that its research and development activities were not subsidised and could therefore be claimed through the SME Scheme.

### the verdict

dRMM have been seeking to establish a structured approach to their research and development activities – and applying for R&D tax credit presented a useful means of evaluating their current activities. Although the scheme criteria appeared complex at the outset, dRMM, with support from professional advisors and the HMRC have been able to demonstrate how their activities are eligible, presenting a funding stream for further research and development projects and an understanding of how to make best use of the scheme as they progress.

* Claims process ongoing; agreed in principle.
The R&D tax credit scheme will not apply to every architectural practice. Working out whether it does or not, and where to go from there, might initially seem daunting. The following five steps will help to get the process started.

Five steps towards making a claim

1. check your eligibility
   - remember that only companies that are liable to corporation tax can claim
   - consult the HMRC guidance for details on eligibility
   - decide whether your practice might qualify, and for which areas of your work
   - check whether you could make a retrospective claim – claims on projects included in the last two years of accounts are allowed, if your practice spent £10,000 or more on R&D work in the corresponding accounting period. (Minimum spend requirement does not apply for costs incurred from 1 April 2012.)

2. review your projects
   - if your practice meets the minimum spend requirement for one or both of the last two years of accounts, review previously completed, ‘historical’ projects from this period
   - make a list of projects that fit the bill, including any with a question mark, for example, those that have received non-State Aid subsidies
   - include any abortive projects and activities

3. look back – and ahead
   - consider whether the work undertaken on ‘historical’ projects justifies the time taken to prepare a claim; try to establish a high-level estimate of costs already incurred to inform your decision
   - if the costs do not stack up, explore how best to ensure tax relief in the future by:
     - making sure that all staff know about the opportunities for R&D tax credits
     - identifying specific research objectives or projects on the horizon
     - developing processes to record effectively time spent on relevant projects

4. compile the evidence
   - if seeking tax relief on ‘historical’ projects, review what information you have to support a claim:
     - develop a matrix of project information, including project dates and costs and as much other relevant detail as possible
     - gather together patent applications or similar approaches on intellectual property: these provide strong evidence of qualifying research and development (although patenting costs cannot be claimed)
     - work out staff costs associated with qualifying activities (HMRC accept that detailed records of how time has been spent may not always exist; in this case, make a fair and reasonable estimate of costs, providing a rationale wherever possible.)

5. seek assistance
   - contact HMRC specialist R&D units – located across the UK – for advice on any issues where you are uncertain
   - consult relevant professional bodies to help you to evaluate your claim and support you throughout the process, for example an R&D tax credit specialist

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Where can I get more information and advice?
To provide help and advice on all aspects of R&D tax credits, HMRC has set up seven specialist R&D units across the UK.\(^6\)

How long does it take to compile the evidence?
This will depend on the size, scope and complexity of the project.

You will need to keep adequate records to support your practice's tax return – but no specific additional record keeping is needed for claiming R&D tax credits. HMRC does not expect you to create new primary business records to support a claim. It adopts a "light-touch" approach but may request records when checking compliance between your tax return and your claim for R&D tax credits.

You may, however, need to maintain your business records in a different way so that information needed for an R&D tax credit claim is easily retrievable. Keeping your staff involved throughout the process will help identify activities and expenditure that qualify for R&D tax credits.

If you are uncertain about what records are needed to support your claim, HMRC can provide advice.\(^7\)

If you are working within tight time constraints, you may want to consider obtaining professional support from an R&D tax credit specialist. Many specialists work on a contingent fee basis – that is, no win, no fee. Assistance with your first claim will often mean that further help is not then needed for subsequent claims.

No records of staff time committed to previously completed projects were kept – can costs still be claimed?
HMRC accepts that companies may not have recorded staff time specifically to reflect the criteria for R&D tax credits. It will therefore accept alternative evidence to support a claim. Examples include:

- list of staff working on the research and development project
- contracts of employment
- PAYE records
- subcontractor invoices and evidence of payment, such as bank statements, to subcontractors and/or externally provided workers
- receipts or contracts for software

What happens if HMRC wants to audit our claim?
If HMRC opens an inquiry into your claim, it will usually request further information to justify costs identified as eligible. Such reviews tend to be informal. They are not used to ‘catch out’ companies or as a pretext to investigate wider tax issues. HMRC seeks to help, advise and encourage companies throughout a review.

If, following a review, HMRC questions the scope of a claim, it may seek to reduce its value. (Where excess tax credits have been awarded, these would need to be refunded.)

In rare cases, a formal audit of claims may be conducted within 12 months of the claim’s submission.

What happens if projects are fee paid – what does subsidised mean?
For a fee paid project, there are a number of possible contractual relationships between architect and client, and the type of relationship will affect how the R&D tax credit scheme is applied. The following sets out some of the ways the tax credit scheme may be applied to R&D activities as part of a fee paid project; to confirm how the scheme will apply to individual cases, advice should be sought from a tax professional or HMRC advisor.


R&D activities are considered ‘subsidised’ if a practice receives a fee or grant in order to carry out the work. Where R&D work takes place as part of a fee paid project, but goes over and above the scope of the client brief and is undertaken at the practices’ own expense, it may be possible to demonstrate that it is ‘unsubsidised’. Such work may be eligible for relief under the SME Scheme.

If R&D work is undertaken as part of a client brief and/or the practice receives a fee for this work, SMEs may still be able to claim relief for such activities, but through the Large Company Scheme instead (and therefore at a lower rate).

When R&D work is subsidised by a grant, the rate of relief for which these activities are eligible depends on the type of grant received.

For projects subsidised by a grant which is a form of ‘Notified State Aid’ (such as Collaborative R&D Grants or Grants for R&D that have to be notified to the European commission), no expenditure on that project can qualify for R&D tax relief under the SME scheme. SMEs may, however, claim tax relief on such R&D work through the Large Company Scheme.

For work subsidised by other types of grant, eligibility for either the SME or the Large Company Schemes needs to be assessed on a case-by-case basis by a tax professional or HMRC advisor.

**For major, multi-disciplinary projects – can more than one company claim for the same project?**

HMRC usually advises that one company own the intellectual property that results from the research and development.

For the architectural industry, however, achieving solutions to highly complex problems – usually for major projects – often requires a collaborative approach from highly skilled, multi-disciplinary teams.

Where two teams or companies jointly carry out research and development for the same project, HMRC will consider separate claims provided that both have made a contribution and each is free to enjoy the benefits of the research and development.

**By making a claim, won’t we be revealing information about the unique products, performances, processes that we have developed?**

The process for claiming R&D tax credits is completely confidential. HMRC does not share any information about any project, whether or not a claim is submitted. To demonstrate ‘an advance in industry knowledge’, all that needs to be shown is that the innovation is not ‘readily deducible’, that is, publicly available knowledge, or knowledge that would be known by a hypothetical ‘competent professional’ in the sector.

Where professional support is sought for the submission of claims, a full non-disclosure agreement is usually signed to protect sensitive information about products, performances and processes.

**We are an LLP and so unable to claim – are there any other incentives available for research and development?**

Incentives other than R&D tax credits that could be considered include:

- **UK government-funded research and development grants**, such as those offered by the Technology Strategy Board.
- **EU-funded projects**, including the EUREKA Eurostars fund, which supports R&D performing SMEs to develop new products, process and services.
- **Knowledge Transfer Partnerships (KTP)**, in which companies work on research and development projects together with recent graduates and an academic institution.

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