



R&D TAX CREDITS: SUPPORTING INVESTMENT IN THE SUBSEA INDUSTRY

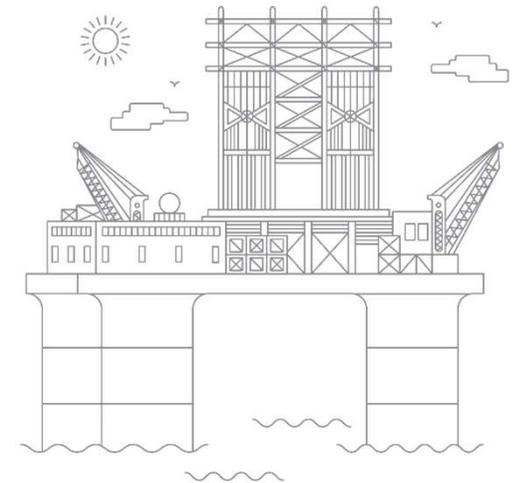
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Today's session

- Overview of the R&D tax credit landscape
- Recap of the detail
- A summary of recent changes
- Case studies/ sector examples
- Q&A



Overview of the R&D tax credit landscape

- R&D support in 2016-17 - £3.5bn, increase of £575m since prior year
- 43,000 R&D claims submitted, 1,000 patent box claims
- Since launch – 240,000 claims made, for £21.4bn in tax relief
- Still high number of 'late' claims (13,705 or 35% - most SMEs)
- Still confusion on what is R&D ?

Recap of the detail

- A UK corporation tax relief to encourage companies to **innovate**
- Worth **33-44p** per £1 spent on qualifying R&D for SMEs, and **9.7p** (net) per £1 for companies who can't claim SME
- Qualifying costs include salary costs, consumables, agency labour, subcontractors (SME mainly), software licenses, and heat, light and power
- After 2015 there's a restriction on material costs

R&D tax relief

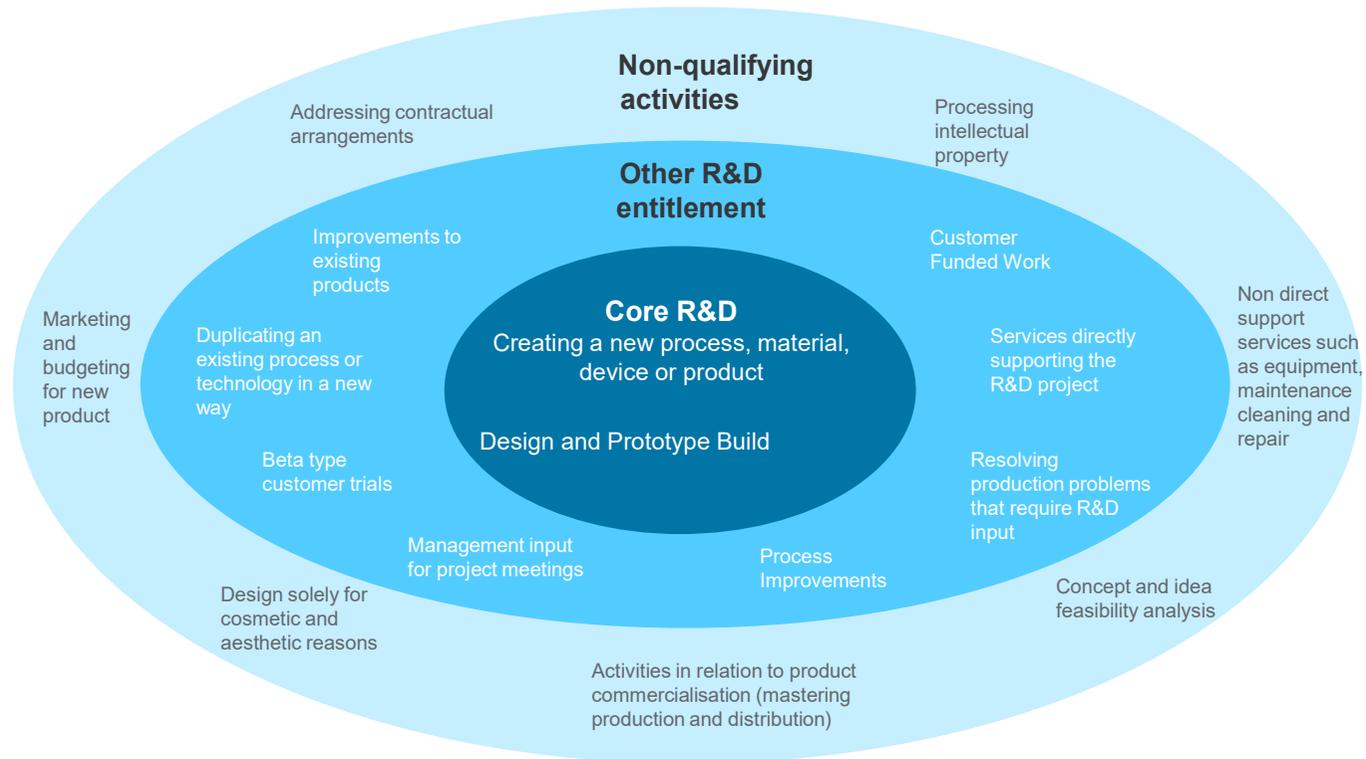
- R&D for tax purposes takes place when a **project/product** seeks to achieve an **advance** in **science** or **technology**
- The activities which **directly contribute** to achieving this advance in science or technology through the **resolution** of **scientific** or **technological uncertainty** are R&D
- Certain **qualifying indirect activities** related to the projects are also R&D
- Concept of **competent professional**

R&D tax relief

Definition of an 'advance'

- Extend overall knowledge
- Create a process, material, device, product or service which represents an **increase** in overall knowledge
- Includes making an **appreciable** (not minor) improvement
- Use science or technology to **improve** an existing effect more efficiently ('uncertainty' here is key)

R&D in a picture



The detail

Qualifying costs

Currently eligible:

SME scheme

Staff costs *
Consumables
Software
Heat, light and power
Externally provided workers
Clinical volunteers
Subcontracted costs

Large company scheme

Staff costs*
Consumables
Software
Heat, light and power
Externally provided workers
Clinical volunteers
Contributions to universities

* to include reimbursed expenses, QIAs, eer nic, eer pension

The detail

R&D tax relief schemes – SME, large and RDEC

- An SME for these purposes is defined as a company or group that has:
 - Fewer than 500 employees, and either;
 - turnover of less than €100m; or,
 - Gross assets of less than €86m
- Care over definition of 'group' – especially PE/ VC/ institutional investors

	SME Scheme	RDEC (non SME) Scheme
Period of claim	Post 1 April 2018	Post 1 January 2018
Enhanced tax deduction	230%	N/A
Rate of tax credit	14.5%	12%
Potential value of claim per £100 spent *	£33 – £44	£9.70
* range depends on company's tax profile, and whether it claims as an enhanced tax deduction or a repayable tax credit.		

Case study 1

Valves/ control systems and measurement

- Focus on reliability – simplicity – reducing maintenance
- Intelligent systems/monitoring software
- High volume flow/ high accuracy gauges
- Reducing size and complexity = advance?
- Improving efficiency



Case study 2

Subsea structures

- Improving ease of maintenance
- Novel alloys/ metals
- High degree of accuracy
- Pure research?



Case study 3

Well Technology

- Design of down hole tools which is specific to jobs
- Design and installation of well abandonment equipment
- Design of equipment to hang off gauges and other tools in a well
- Design of equipment that allows plugged wells to be equalised or brought onto production without the need for intervention
- Most of the equipment designed was subject to patents
- High element of bespoke product



R&D tax relief – key points

- HMRC encourage claims – and still believe more companies could be claiming
- Get it right first time to avoid time consuming enquiries
- Take advice – strong foundation, commercial methodology
- Maximise claims – be realistic



AND DON'T FORGET - PATENT BOX

The patent box – existing regime

- Applies from 1 April 2013
- **10%** from 2017 onwards (v **19%** & **17%**)
- Elective regime:
 - company must either hold a UK or EU registered patent, or an exclusive license to exploit the patent; and
 - development (and potentially active ownership) requirements apply
- Three step formulaic calculation:
 - identify profits attributable to relevant IP;
 - exclude routine return; and
 - exclude profits attributable to marketing assets

The patent box – new regime

- **Nexus** approach to claims
- Applies to ‘new entrants’ after 1 July 2016, and all after 1 July 2021
- Requires streaming of patent income per patented item/sub-item
- Restricts income with reference to the amount of expenditure on R&D subcontracted to connected parties

‘Good’ spend x 130%

‘Good’ spend + ‘bad’ spend

Good = In-house entity R&D spend + outsourced R&D spend to external parties
Bad = outsourced spend to connected/group entities + spend on acquisition of IP rights

- If not elected already, you are likely to be in the **new regime** !

The patent box

Watch out for.....

- Low margins lead to no patent income
- Streaming if so?
- Patents pending ?
- Election must be made within 2 years of AP
- Need to be careful about patents pending

Any questions?



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for your time
and attention

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