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PAYE Cap for Research & Development





It was announced in the Autumn 2018 Budget that SME companies will see the return of a PAYE/NIC cap for R&D payable credit claims from April 2020.

Under the current rules £1.8 billion of R&D support was claimed in the 2016/17 tax year. This demonstrates just how popular this relief has been. However, it has been widely reported that HMRC has seen this support abused. Those abusing the scheme are merely setting up SME companies to claim the relief when there is no evidence of legitimate R&D activity.

To date HMRC has identified and prevented over £300 million of fraud and these new rules announced by the Chancellor in the Autumn Budget are designed to prevent this abuse.

What are the changes announced by the Chancellor and what do they mean for SME's?

A qualifying, loss-making SME business will under the new rules be limited to the amount of R&D they can claim in any one year. The claim will be capped at three times the amount of the Company's PAYE and NICs liability for that year. Smaller businesses or 'one-man-bands' who are genuinely innovating with legitimate R&D will see the impact of this change the most due to their low PAYE and NIC liabilities.

In future qualifying businesses will only be able to claim a payable credit up to the cap. They are, however, able to carry forward any unused losses to be set against future profits.

Our R&D experts looked at the proposed legislation soon after they were announced by the Chancellor and they have confirmed that a number of businesses may be caught out. It is likely to affect mainly loss-making companies but some of our technology start-up clients will notice this the most!

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