

Maximising returns: Can UK design consultancy fees be offset with R&D tax credits?



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Reading time 7 mins

Key Points

- Research and Development (R&D) D tax credits are a UK government incentive encourages innovation by providing financial relief to companies engaging in qualifying R&D activities.
- Two R&D tax credit schemes exist: the Research and Development Expenditure Credit (RDEC) and Small-Medium Enterprise (SME) schemes.
- Both schemes are aimed at R&D activities that seek to achieve scientific or technological advancement and resolve scientific/technological uncertainty.
- R&D activities in the Arts, Social Sciences, and Humanities are not eligible to apply
- Updated HMRC tax relief regulations came into effect in April 2023. Businesses applying for the first time must inform HMRC of their intent to apply for tax relief in advance.
- Costs that can be claimed or offset with tax credits include sub-contractor and externally provided worker costs, data-licence and cloud computing, and software costs.

Our R&D services might be able to help you drive growth and reduce your tax burden. Call us to find out how!

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In the dynamic landscape of the United Kingdom's business environment, companies continually seek ways to innovate and stay ahead of the competition. For companies worried about an uncertain [economic outlook](#), adding UK design consultancy fees to their business overheads might strain their bottom line. The good news is that these operating costs can often be offset with research and development (R&D) [tax credits proposed by the UK government](#).

[Ignitec's R&D services](#) aim to do just that. We help businesses to innovate rapidly, and our wealth of experience ensures that we can help you get there quickly and cost-effectively. Schedule a free consultation for more info on our [Innovation on Autopilot®](#) initiative. It gives you priority access to our in-house team of designers, developers, and engineers at a fixed monthly cost and ways to offset them with tax credits.

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This article will explore how UK design consultancy fees can be offset through R&D tax credits, shedding light on the eligibility criteria and the process involved.

Understanding R&D tax credits and eligibility for UK companies

R&D tax credits are a government incentive to encourage innovation by providing financial relief to companies engaging in qualifying R&D activities. These credits can significantly reduce a company's tax liability, providing a valuable cash injection to reinvest in further innovation and development.

Two R&D tax credit schemes exist: the [Research and Development Expenditure Credit](#) (RDEC) and [Small-Medium Enterprise](#) (SME) schemes.

The RDEC rate has increased over the years; companies can get over 10% of their R&D expenditure incurred up to 31 March 2023 refunded. Then this will increase up to 15%.

With the SME R&D tax credit scheme, you can claim up to 33% tax relief on your qualifying R&D expenditure incurred up to 31 March 2023. After this, new rates will apply.

Examples of [costs that can be offset](#)/claimed:

- Fuel, materials, power, and water
- Clinical trials
- Data licence and cloud computing
- Externally provides worker costs
- Staff costs
- Software
- Sub-contractor costs

Eligibility criteria for UK tax relief

To determine whether UK design consultancy fees can be offset with R&D tax credits, it's essential to understand the [eligibility criteria set by HMRC](#) (HM Revenue & Customs). Generally, the following conditions must be met:

1. Qualifying R&D Activities

- The R&D activities must seek to achieve scientific or technological advancement.
- The work must aim to resolve scientific or technological uncertainties, meaning the knowledge or capability to achieve the desired outcome isn't readily available.
- The business must be able to explain how scientific or technological uncertainty was overcome by the R&D research, testing and analysis needed to develop it.
- The business must demonstrate how other experts in the field could not provide an alternative solution.

2. Project Substantiation

- The business must be able to demonstrate the R&D project's eligibility through documentation such as project plans, design notes, and records of trials and testing.

3. In-House vs. Outsourced R&D

- Both in-house and externally subcontracted R&D activities can qualify for tax credits. However, if a company is outsourcing R&D to a design consultancy, the claimant company needs control over the R&D project.

4. Non-qualifying (ineligible) for R&D activities involved in:

- The arts
- Humanities
- Social Sciences, including Economics

As noted above, the updated HMRC tax relief regulations took effect in April 2023. Businesses are advised to [tell HMRC they plan to claim tax relief](#) for R&D in advance to be notified of the information they must submit and how to send it.

Steps to claim R&D tax credits for UK design consultancy fees

1. Identify eligible R&D projects

- Clearly define the R&D projects undertaken by the design consultancy that meet the criteria for scientific or technological advancement and uncertainty resolution.

2. Document R&D Activities

- Maintain detailed documentation, including project plans, design notes, and records of experiments and testing, to substantiate the eligibility of the R&D activities. [Download our product risk assessment template](#) to help you get started with compiling the necessary documentation.
- Working with an established UK design consultancy with an internationally accredited [quality management system](#) will ensure that most of this documentation is done for you.

3. Quantify Eligible Expenditures

- Calculate the qualifying costs of the R&D project, including design consultancy fees, staff costs, consumables, and software.

4. Submit R&D Tax Credit Claim

- Prepare and submit a robust R&D tax credit claim to HMRC, outlining the eligible projects and associated costs.

Are you ready to invest in R&D?

It's only fair that companies be rewarded for innovation and fuelling growth. The UK's commitment to that end is both an incentive and reassurance that any losses can be mitigated.

Industry-recognised design consultancies are experts in conducting robust feasibility studies and rigorous testing resource-efficiently. This enables them to approach each project with flexibility and accuracy that avoids pitfalls and ensures successful outcomes. If you want to know more about our R&D services that could help you save money, call us!

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FAQ's

Why do UK design consultancy fees qualify for tax credits?

Design consultancy fees in the UK may be eligible for tax credits because the government encourages businesses to invest in innovation. The goal is to foster economic growth by rewarding companies that engage in qualifying research and development activities, which often include design consultancy.

How can UK businesses claim tax credits for design consultancy fees?

UK businesses can claim tax credits for design consultancy fees by documenting their eligible R&D activities and expenses. It involves providing evidence of the innovation process, such as design iterations, prototypes, and associated costs. The claim is then submitted to HM Revenue & Customs for review.

What types of design consultancy expenses are eligible for tax credits in the UK?

Various design consultancy expenses may be eligible for tax credits in the UK, including costs related to research, prototype development, and testing. It's essential to identify and document qualifying activities, ensuring that they align with the government's criteria for research and development tax relief.

When should UK businesses apply for tax credits related to design consultancy fees?

UK businesses should apply for tax credits related to design consultancy fees as soon as their financial year ends and they have gathered all necessary documentation. Prompt submission increases the likelihood of a timely review and approval by HM Revenue & Customs.

Which UK government body oversees the approval of tax credits for design consultancy fees?

HM Revenue & Customs (HMRC) is the UK government body responsible for overseeing the approval of tax credits for design consultancy fees. Businesses submit their claims to HMRC, which reviews the documentation and determines eligibility based on established criteria.

How do design consultancy tax credits benefit UK businesses?

Design consultancy tax credits benefit UK businesses by providing financial incentives to invest in innovation. This encourages companies to explore new ideas, improve existing products or processes, and ultimately contribute to the growth of the UK economy.

What qualifies as eligible research and development in the context of design consultancy for tax credits in the UK?

In the UK, eligible research and development for design consultancy tax credits encompass activities that seek to achieve technological or scientific advancements. This can include overcoming technical challenges, creating innovative solutions, and pushing the boundaries of current knowledge within the

field.

Why does the UK government offer tax credits for design consultancy rather than other incentives?

The UK government opts for tax credits for design consultancy to stimulate innovation and creativity within businesses. This approach provides a financial boost to companies engaged in research and development, fostering a culture of continuous improvement and competitiveness in the global market.

What documentation is required to support a claim for tax credits on design consultancy fees in the UK?

To support a claim for tax credits on design consultancy fees in the UK, businesses need to provide detailed documentation of their R&D activities. This may include project plans, design iterations, testing records, and financial statements that demonstrate the incurred expenses.

Why are tax credits for design consultancy fees considered an investment in the UK?

Tax credits for design consultancy fees are considered an investment in the UK because they incentivize businesses to allocate resources towards research and development. This, in turn, contributes to the growth of innovative industries, enhances competitiveness, and fosters economic advancement.

How do UK businesses determine if their design consultancy expenses qualify for tax credits?

UK businesses can determine if their design consultancy expenses qualify for tax credits by assessing whether the activities meet the government's criteria for research and development. This includes exploring new concepts, solving technical challenges, and pushing the boundaries of existing knowledge within the field of design.

What role does innovation play in the eligibility of design consultancy fees for tax credits in the UK?

Innovation plays a crucial role in the eligibility of design consultancy fees for tax credits in the UK. The government encourages businesses to engage in innovative practices, and design consultancy that contributes to technological advancements or scientific progress is likely to qualify for tax relief.

Why are tax credits for design consultancy fees essential for the growth of small businesses in the UK?

Tax credits for design consultancy fees are essential for the growth of small businesses in the UK as they provide financial support for innovation. This allows smaller enterprises to compete on a larger scale, fostering a more dynamic and competitive business environment.

How do UK businesses ensure compliance with HMRC guidelines when claiming tax credits for design consultancy?

To ensure compliance with HMRC guidelines when claiming tax credits for design consultancy, UK businesses should carefully review the official guidelines provided by HMRC. It's crucial to document R&D activities accurately, follow submission protocols, and seek professional advice if needed to navigate the process effectively.

What is the timeframe for processing tax credit claims related to design consultancy fees in the UK?

The timeframe for processing tax credit claims related to design consultancy fees in the UK varies, but businesses can generally expect a review period after submission to HM Revenue & Customs. Timely and thorough documentation can expedite the process, and businesses may receive their approved tax credits within a few weeks or months.

Who is eligible to claim tax credits for design consultancy fees in

the UK?

Any UK business engaged in qualifying research and development activities related to design consultancy is eligible to claim tax credits. This includes businesses of all sizes and across various industries that contribute to technological or scientific advancements through their design processes.

How do tax credits for design consultancy fees contribute to the overall economic development of the UK?

Tax credits for design consultancy fees contribute to the overall economic development of the UK by fostering a culture of innovation and research. This leads to the creation of high-quality products and services, increased competitiveness in global markets, and the growth of industries that drive economic progress.

What role do design consultancy tax credits play in encouraging environmentally sustainable practices in the UK?

Design consultancy tax credits play a role in encouraging environmentally sustainable practices in the UK by promoting innovation in eco-friendly design solutions. Businesses can leverage tax incentives to invest in research and development that addresses environmental challenges, contributing to the country's commitment to sustainability and responsible business practices.

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