



Software Industry

Research and Development (R&D) tax relief is either not thought of by software businesses as the developers are 'just doing their day job' or it is believed that everything qualifies. The answer is somewhere in the middle.

Any software development work has the potential to qualify for the relief. However the advance is rarely implicit in the product – it comes not from the application layer, but from the technology layer. It is the extent of the technology at the backend that had to be advanced in order to develop the application that establishes eligibility as R&D.

As such, it is not the features of the software that determines an advance – it is the journey that the developers take. R&D exists where a problem is encountered in the development that cannot be solved by standard or routine methodologies, and work has to be done to arrive at a solution. This work, such as trial and error, or iterative development is the qualifying activity.

Benefits

For small and medium sized businesses (SMEs) this takes the form of an additional tax deduction calculated as 130% of qualifying costs and provides an effective cash tax benefit of c25% for profitable companies. For loss making companies, a cash credit of up to 33.35% is available.

For larger companies (over 500 employees and either €100m turnover or €86m gross balance sheet) the benefit is reduced, but is recognised above the line, i.e. as an increase to operating profit. The effective cash tax benefit is 9.72% of the spend. For loss making companies, the 9.72% is available as a cash credit.

Capital spend on R&D should also not be overlooked as there is an immediate deduction available for capital R&D expenditure. This gives a significant cash-flow benefit when compared to other allowances where, at best, the relief is given over more than 10 years, and in many cases, not at all.

Qualifying Costs

You can claim relief on costs that have been expensed through the Profit & Loss account and in certain circumstances you can also claim expenditure capitalised as intangible assets). The main areas of costs that can be claimed are:

- Staff costs (gross pay, employer's NI, employer's pension contributions and certain reimbursed expenses) of employees directly and actively involved in the R&D and also where undertaking certain supporting activities.
- Agency workers.
- Subcontractors/freelancers.
- Software license costs.
- Consumable items (including a proportion of heat, light and power).

Understanding your Industry

R&D takes place within a computer software project that seeks to achieve an advance in computer science or information technology, i.e. an advance in overall knowledge or capacity. It is not an advance in a company's own state of knowledge or capability alone, except where the details of the advance are not available to the company due to proprietary considerations.

Usually an advance in a computer software project involves the search for new software constructs or new architecture techniques. If it is present, an advance in a computer software project usually takes place at the algorithmic, design or architectural level. In order for an advance to take place the objective of the work must go beyond routine analysis, copying or adaptation of an existing software product or software process.

Qualifying software projects can appear in every industry, as it does not matter whether the end product is being sold on or used as the company's internal system. Common examples of software development projects that may qualify for R&D tax relief include:

- State-of-the-art software for new projects, or new functionality for existing R&D projects.
- Tools to extend the functionality of application software programs or of an operating system.
- Extensions to database software, programming languages, or operating systems.
- Software development tools, such as those used to port data across platforms, for image processing or character recognition.
- Transformations of diverse data sets into standard formats.
- Novel data management techniques, such as new object representations and new data structures.
- Innovative methods of capturing, transmitting, manipulating, and protecting data.
- Software to run new computer hardware.
- Software to run on devices with pre-installed operating systems, such as handheld GPS, mobile phones, and tablets.
- Integration of a range of software elements into a single streamlined system.
- Integration of hardware and software platforms.

R&D could exist at any time where a problem is faced by an experienced software engineer and development work has to be done to arrive at a solution.