

# Software and IT

## Crediting innovation\*



The Software and IT sector spends vast amounts on R&D. A large number of claims are missed or significantly underestimated because the R&D tax credit legislation is sometimes difficult to apply to technology R&D. A common misconception made by many companies advancing technology in their own field is that they are not doing R&D because their work is not blue sky research or the advances are incremental.

Some examples of R&D claims in the Software and IT sector include the development of:

- A single integrated solution for a company website across Europe
- Technologies that support the design, build-out, optimisation and management of mobile cellular networks
- Next generation of software for mobile telephones
- Advanced search engines and data mining systems
- Computer games
- Software for in house use
- New technology such as VoIP

- Interactive entertainment software for personal computers and advanced entertainment systems
- Graphics cards and 3D Graphics using highly complex silicon chips and related circuit board designs.

The traditional definition of 'research and development', covering experiments usually performed in laboratories for scientific purposes, was extended for tax purposes to include, for example, development of systems which are significantly enhanced compared to existing ones. The enhancement may be in terms of scalability, speed, reliability, flexibility, security or another feature which presents an appreciable improvement. There must be technological uncertainty involved in the successful development of such a system i.e. reasonable doubt as to whether or how it could be achieved and it could not have been readily deducible by a competent professional.

Simply put, if a company is developing technology which is not 'playing catch up' in its field but is extending the boundaries of knowledge, concerning either the theoretical potential or practical application of the technology, it may qualify for R&D tax relief.

**Large companies previously had 6 years from the end of the claim period to make a claim. That time limit has now been reduced to 2 years. Therefore companies need to act much faster to ensure that claims are filed in time.**

## Industry Specific Issues

PricewaterhouseCoopers can help you with the following issues:

- Identifying R&D for tax purposes and distinguishing between qualifying R&D and product commercialisation and/or implementation.
- Whether addition of functionality to existing versions of software has the required degree of technological advance and uncertainty.
- Defining an R&D project, identifying the R&D 'start' and 'end' with particular reference to alpha and beta testing.
- Whether expenditure on development of software or systems which may have a reasonably long life, is capital rather than revenue

## Relevant Experience

Our approach is to help you maximise your claim, agree the principles and process with HM Revenue & Customs (HMRC) and leave behind an easily replicable process which enables you to prepare future claims yourself.

We have worked with many Software and IT clients, a selection being:

- Leading computer games developer - we helped increase their R&D tax relief claim five-fold.
- In-house software developer – we worked with the client and HMRC to agree that software R&D on in-house system qualifies as R&D for tax purposes.
- Telecommunications company –we developed a process for identifying qualifying expenditure for a company which had a large number of projects and individuals involved in R&D. This process was manageable and could be replicated in subsequent years with little external involvement.
- Next generation mobile telephone software developer.
- Specialist mobile content provider of resource location and control room solutions including development of VoIP technology.

- Software solutions provider to the financial services and debt management sectors.
- World leading independent developer and publisher of interactive entertainment software for personal computers and advanced entertainment systems.
- A company developing motion capture technologies for use in film.

## Recent developments

In the last 12 to 18 months we have seen a large increase in the number and depth of enquiries by HMRC into R&D tax relief claims.

The 2005 pre-budget report announced the creation of dedicated R&D units within HMRC to ensure that all SME claims are dealt with by specialist HMRC staff. This acknowledges the specialist nature of this area and we hope this will improve the speed and consistency of processing claims.

Our team of industry specific R&D specialists would be delighted to assist you to maximise and agree your claims.

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