



CONNECTING INNOVATION WITH YOUR BOTTOM LINE

RDP ASSOCIATES

Common misconceptions about dividends and R&D tax credits:

- Director shareholders that just started a business and don't have enough resources to pay themselves a salary. They ask whether they can claim on the market value of the R&D services they have provided to the company
- Director shareholders drawing out a loan in the early years want to know if they can claim against the loan
- Director shareholders that don't draw a large salary, and largely draw dividends from the company which they should surely qualify

The cold hard facts are that, unfortunately, none of the above scenarios apply. Only salaries physically paid through the payroll to individuals qualify. This also means that any accrued salaries charged in the accounts, only qualify once they are actually paid.

Whilst there is little that can be done on the first two cases until a company starts to grow/find investment to fund salaries, the third area is where a business has a level of discretion available to influence the amount of research and development tax relief claimable.

RDP has done some analysis to look at the **trigger points** where the salaried route becomes more effective and the approximate percentage of R&D time needed to make it so. We found that there is a sliding scale: the higher the level of the dividend being replaced, the lower the percentage of R&D time spent by the director needs to be. For example, at the bonus equivalent of a £90,000 dividend, only 31% of a director's time needs to be spent on R&D to save money.

Other factors to consider include calculation of director salary you want to include, employer's National Insurance contributions, employer pension contributions, and some reimbursed business expenses. Adding these costs will also increase the R&D tax credit claim.

Finally, you also want to include all the eligible R&D activities carried out by the Director such as:

- Meetings and conceptualisation
- Project management
- Technical direction
- Technical planning
- Design and development

- Testing

You should also consult your financial advisor before you make a switch from dividends to salary. You should take into consideration the following questions:

- Would there be any impact on shareholders' agreement?
- Would there be any impact on banking arrangements? or
- Would it affect any other tax plan you have in effect?

So, is it time you started rethinking your remuneration strategy?



Tax Efficiency for R&D Performers on Salary vs. Dividend, Hours Worked and Spent on R&D **Based On % of Annual**

Dividend	Equivalent salary	% R&D where salary becomes more tax efficient than dividend	Yearly tax saving for company per additional % R&D	Maximum yearly saving (to 100% R&D)
£90,000	£108,691	32%	322	£21,970
£80,000	£97,441	34%	288	£19,011
£70,000	£86,191	37%	255	£16,052
£60,000	£74,941	41%	222	£13,094
£50,000	£63,691	46%	188	£10,135
£40,000	£52,441	54%	155	£7,176
£30,000	£39,732	56%	118	£5,131
£20,000	£27,757	68%	82	£2,626
£10,000	£14,155	73%	42	£1,139

Assumptions

- Mr. X has already a minimal salary of £11,500 that covers the personal allowance.
- He draws salary or dividend in excess of the above amount.
- Mr. X is kept in tax neutral position, additional savings accrue to the company.
- He spends X% of time on R&D.
- Please note this is for illustration purposes only, and advice should be taken based on each individual's precise circumstances. This is based on the agreed % with HMRC, which may not be confirmed until after the salary is paid. Dig deeper into the ins and outs of your **remuneration strategy** by contacting Richard Thorpe-Manley at (0)198 088 0645; or A.K. Hajee at (0) 203 002 0089.



JOIN US **ON THE WEB.**



Email: info@rdpassociates.com

Phone: (0)198 088 0645

Website: www.rdpassociates.co.uk

Facebook: www.facebook.com/RDPAssociates

Twitter: @RDP_Associates

RDP Blog: www.rdpassociates.com/blog/

LinkedIn: <https://www.linkedin.com/company/rdp-associates-inc>

Crunchbase: <http://www.crunchbase.com/organization/adp-associates#section-overview>