

Going from "Retrospective" to "Real-Time" R&D Tax Credits

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ReaDI-Watch brings customers from a "retrospective" end of year approach to submitting R&D tax filings by implementing a culture and structure for real-time data capture in the business.

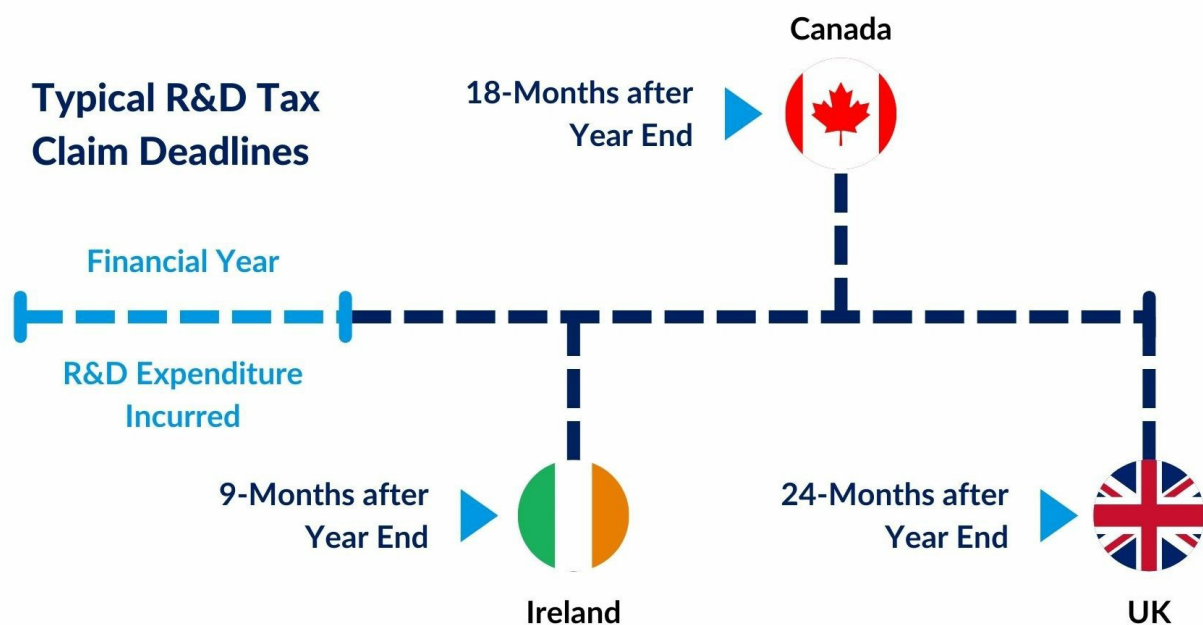
This article is not and should not be taken as tax advice. Please correspond with your tax adviser for any corporation tax related discussions.

Retrospective nature of R&D Tax incentives

If you haven't been through it before, you'll probably know someone who has - the dreaded "end of year" call from your finance team asking you to meet with them (or an R&D tax specialist accountant), to establish what R&D can be claimed for over the last 12-18 months.

There is a great flexibility in the R&D tax credit mechanism compared to grant supports - you don't need to scope an R&D project before you start, prepare an application, submit the application, and get approved, prior to spending your money.

Depending on the country in which you are claiming, you may be able to claim for expenditure incurred on R&D in a financial year up to a deadline of 6-24 months AFTER the year has ended!

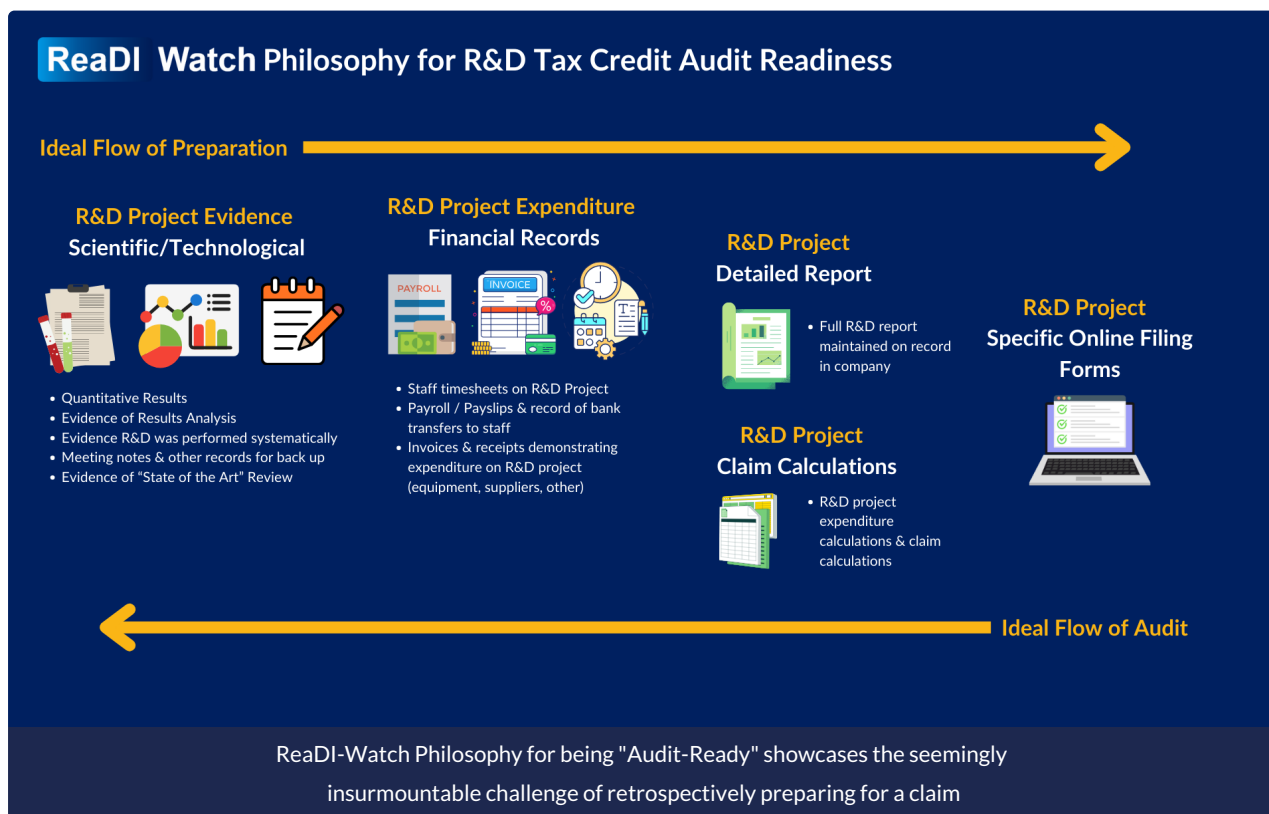


Typical Deadlines to File an R&D Tax Claim, after the Financial Year in which expenditure was incurred.

Do not take this as tax advice, please check with your tax adviser for actual deadlines.

Retrospective approach to filing - Pitfalls

As you can imagine, with such a window after a year end to file a claim, it has become the industry norm to start figuring out what to claim, AFTER the year has been completed. This is where the "flexibility" afforded by the mechanism starts to be replaced with frustration & risk, for the people responsible in pulling it together.



There are many people who believe that the onus of R&D tax credit preparation from a science/technology and financial perspective should be completely offloaded onto third party consultants and/or administrative support staff in the company, who should deal with it at year end.

We posit that this leads to painful & expensive mistakes:

1. Mistaking customer jobs or new products for scientific/technological R&D projects.
2. Not having a detailed R&D report on file, beyond the "*bare minimum*" requirements for online filing, which are usually very limited as this is a self-assessment mechanism.
3. Not clearly showcasing how the aim of the R&D project was to advance new knowledge/capability beyond the known "*State of the Art*" - often by omission of including what the known state of the art was at the outset.
4. Not clearly showcasing the presence of scientific/technological uncertainty in the project, and/or demonstrating any evidence of this uncertainty. This is exacerbated in many engineering/development team cultures where failures are not as well documented as successes.
5. Not having a consistent strategy for allocating staff to R&D projects - usually an absence of timesheets, for example.

Our years of first-hand experience supporting companies in this space, combined with deep conversations with thousands of companies on the opportunities & challenges with R&D tax credits, combined with our founding

team's experience as auditors reviewing claims, shows unequivocally that offloading this to others leads to failure & pain.

What can ReaDI-Watch do to support?

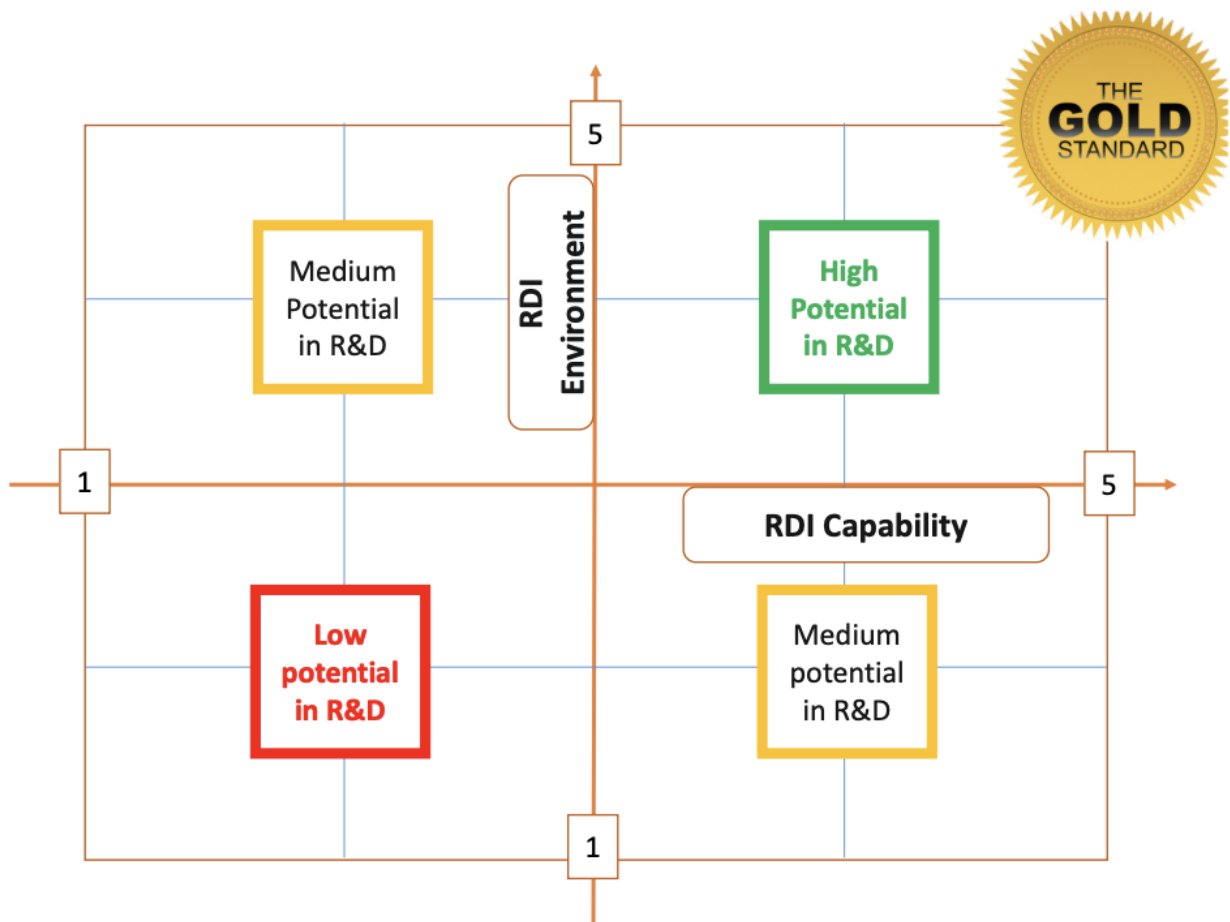
ReaDI-Watch, at our core, believe in "real-time" - that these incentives can be used by companies, not only to reward the taking on of uncertainty to advance science/technology, but also to improve and accelerate how a company develops its technology, products and services.

When we start working with our customers, we are usually asked to start by "*looking backwards*" to establish what can be claimed retrospectively, and "*taking the learnings into real-time*".

This takes significant pain, time & cost out from the team doing R&D tax claim preparation:

Challenges - Retrospective, End of Year Approach	Real-Time Approach
Significant editing of end-of-year R&D reports by technology leads in the business, as the third party consultant or administrative staff member finds it hard to grasp the nuances of the technology being developed.	"Real-Time" check-ins & integrations into the engineering & development workflows in the business. Impact: Reduced report writing time to below 10% of retrospective.
Failed R&D Tax credit audits due to a lack of internal familiarity with the claims being filed and how R&D projects are being framed.	Deep familiarity, comfort & sponsorship of process by staff & senior teams. Impact: ReaDI-Watch's real-time customers have <u>never failed an R&D tax credit science test audit.</u> <i>(though we cannot be held liable for the outcome due to the opinion-based nature of these audits, we are there with you all the way).</i>
Lack of evidence to support claim, as it can be extremely arduous to gather evidence after the fact.	Preparing R&D evidence becomes a by-product of real-time workflows. Impact: 100s of Development/Engineering Team hours saved.

By establishing a "real-time" approach, we can avoid all of these pitfalls and create a strong multi-year R&D programme in the company, partially funded by R&D tax credits.



Building a strong RD&I Capability and Environment in the Company is our core goal
 (i.e. the top RHS of this Research Readiness Level Scale)

<https://readi-watch.com/post/research-readiness-level-index>

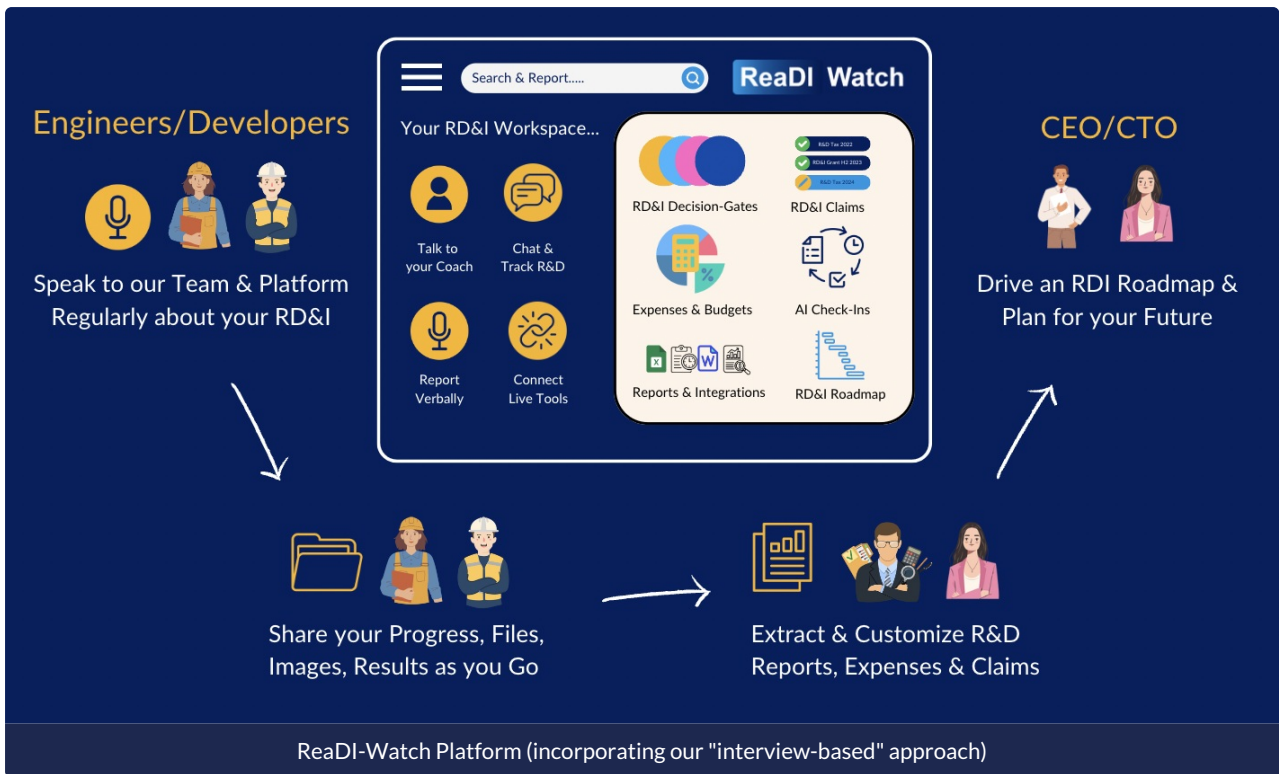
So how do we get started ?

The image below outlines our process to gather R&D project information into our platform.

We use the following to populate our platform:

- Interviews with scientific/technology leaders
- Integrations and exports from development platforms like Zoho, Jira and ERPs for R&D evidence
- Integrations and exports from timesheet tools such as Timepoint for staff allocation to R&D projects

When we're doing this for the first time, retrospectively, we are going to be challenged to gather all of the evidence & information we need. This presents a potential "audit risk" for first time claims. However, if there is a cultural buy-in to take these learnings into "real-time", then the risk of "not having enough evidence" or "not having timesheets set up properly" can be reduced as we move forward.



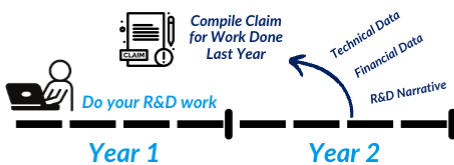
Making the decision to file your claim retrospectively

Very often, our customers (when they start working with us), file their first claim with us retrospectively. We do not use any "black box" methodologies to decide on our customers behalf what should be claimed or not - we simply gather the information we can, to make the best case possible, and we communicate the risks that may still be present, that can be removed through a "real-time" process.

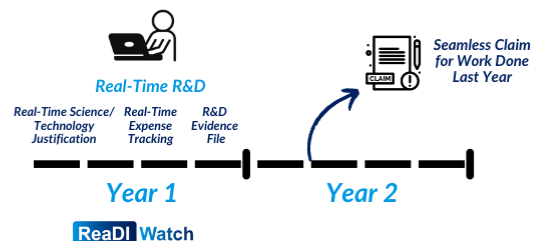
If your company decides that these risks are too great to make a first claim - that's fine with us - we will take the learnings into "real-time" and make sure that we are in a strong position for next year.

If you do decide to claim, we will be there with you, continuously improving processes, making the case better and better as time & projects go on!

Typical Timeline to File a Claim - Retrospective



ReaDI-Watch "Real-Time" Approach



Retrospective vs "Real-Time" R&D Tax Credits