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R&D Tax Credits **Ultimate Pack**

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R&D Tax Credits Ultimate Pack

Learn everything you need to know about how R&D tax credits can help you innovate and save costs to innovate

Modules covered in this pack

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What is an R&D Tax Credit Scheme and How does it work?

What is an R&D Tax Credit Relief Scheme?

The UK government understands that every business has to innovate to fuel growth which in turn allows our economy to grow. R&D is a great way for businesses to build new products and innovate in today's competitive world. R&D tax schemes incentivize R&D for businesses across the country to invest in accelerating their R&D, employ staff for R&D, and grow faster.

How does R&D Tax Schemes work?

Under R&D tax schemes, businesses in the UK can claim tax credit relief for certain investments they make on R&D. When we asked businesses to share any R&D activities that they have carried out, we saw most of them felt that a typical perception of R&D activities was anything that was done inside of laboratories. That's not correct! R&D schemes cover a lot more than just lab work. You can expect to get a certain amount of tax relief if the activity you are carrying out contains:

1. **Uncertainty of outcomes**
2. **Advancement in the field or your industry**

If those two are a part of your R&D activities, you can claim tax relief on the expenditure you made to carry out your research.

What Qualifies as R&D Expenditure?

What qualifies as R&D Expenditure?

We can divide all R&D activities into 3 categories:

1. Activities that qualify as Core R&D tax credits - these are always considered as R&D activities
2. Activities that Potentially qualify towards R&D tax credits - these may or may not qualify towards R&D tax credits as it depends upon what your organization did there.
3. Activities that do not qualify towards R&D tax credits

The table below shows a list of activities that fall under the 3 categories we listed above

QUALIFY AS CORE R&D TAX CREDITS	MAY, OR MAY NOT QUALIFY AS CORE R&D TAX CREDITS	DOES NOT QUALIFY AS CORE R&D TAX CREDITS
Building a new product	Improvements in your existing products	Distribution and Production
Creating a new process	When you reinvent or transform an existing process	Filling IP
Building a new prototype	When you reinvent or transform an existing technology	Any improvements that solely focus on aesthetic or cosmetic aspects of product
	Any efforts made towards scaling up production capacity	Cost of land
	Any process improvements	
	Any activity where R&D teams are actively involved in production line problems	

While the activities that do contribute towards R&D tax credits and those that do not are extremely clear from the above table, the column in the middle is where most organizations fail to get the most out of R&D tax credits.

Are you eligible for the R&D Tax Scheme?

R&D Tax Relief Scheme - Do you qualify?

To find out which R&D Scheme you qualify for, answer the following questions in Yes/No

1. Is your business registered for Corporation Tax in the UK or are you a partnership with corporate owners? - **Yes / No**
2. Have you developed new or improved existing products, processes or services in the last 2 years? - **Yes / No**
3. Have you incurred any R&D costs on staff, contractors, and consumables? - **Yes / No**
4. Does your business employ more than 500 people, or does it have more than £86 million in turnover? - **Yes / No**

Question #1

If you answered No to question 1, you aren't eligible for the R&D Scheme. You must be a UK limited company or be a Partnership with corporate owners to be eligible for R&D tax credits.

But if you selected Yes, let's move ahead.

Question #2

If you selected No, you won't be eligible for the R&D Tax credits. In order to qualify for R&D tax credits you must be seeking to advance science or technology within your industry. As you've not developed any new or improved any existing innovative tools, products, or services, and have not re-developed any existing products, processes, or services in the last 2 years - you aren't eligible for the scheme.

But if you selected Yes, let's look at your answer to question 3.

Question #3

If you selected No, you aren't eligible for the R&D Tax credits. In order to claim R&D tax credits, you need to either employ staff or spend money on contractors, consumable items, and other items. If you're unsure, email us and we will tell you if you are eligible.

But if you selected Yes, let's go ahead and see what R&D scheme you're eligible for.

Question #4

If you selected No because you either don't have £86 million in turnover or employ less than 500 people - you qualify for the SME R&D Scheme.

But if you selected Yes - Congrats!! Based on your previous answers, you will qualify for the RDEC

How To Claim R&D Tax Relief

How To Claim R&D Tax Relief

Claiming R&D Tax Relief, CT600

You need to add total qualifying R&D expenditure on the CT600 form. This will allow you to claim R&D tax relief.

But before you do that, you also need to calculate:

1. **Payable tax credit**
2. **Backdated R&D claims**

Backdated R&D claim is unclaimed R&D tax relief from any R&D expenditure that you previously incurred but never claimed. There is a substantial space for making backdated R&D claims as most organizations aren't aware of certain R&D tax reliefs that they are eligible for and never claimed.

A 3-Step Process to Calculating your R&D tax relief claims

Calculating your R&D tax relief is a pretty straightforward process where you first calculate your allowable expenditure, turn it into R&D relief claim and then finally add it to your company tax return form, CT6000.

Follow the detailed instructions in the steps below.

Step #1 - Calculate allowable expenditure from your R&D costs

To do that, we will consider the case of a company that recently invested in building a pilot project for a new specialty chemical manufacturing plant. For this R&D project the following expenditures were incurred:

1. **Expense on a team of R&D Engineers**
2. **Expense on R&D Head to manage R&D Engineers**
3. **Material costs for R&D work**
4. **Piping and instrumentation costs for this R&D project**

Let's calculate how much is our allowable expenditure from those expenses.

How To Claim R&D Tax Relief

Total R&D Costs	Allowable Expenditure	Total
R&D Engineers with a total cost-to-company of £340,000 and 67% time on R&D	67% of £340,000 as staff costs	£227,800
R&D Head with a total cost of £91,293 and 45% time spent on R&D	45% of £91,293 as staff costs	£41,081.85
R&D Material cost for the prototype was £43,257	25% of £43,257 as consumable items	£10,184.25
Piping and instrumentation costs were at £14,330	£14,330 as consumable items	£14,330
		£293,396.1

So, we got a total of £293,396.1 as our allowable expenditure. Our next step would be to turn this allowable expenditure into an R&D tax relief claim.

Step #2 - Calculating R&D Tax Relief Claim from Allowable Expenditure

To arrive at your R&D tax relief claim multiply allowable expenditure by 130%. So, our total R&D tax relief claim = £293,396.1 x 1.30 = £318,414.93

Step #3 - Add this R&D Tax Relief Claim to your tax form

In your tax form, go to box 650 and enter the amount of £318,414.93. And that's it!

Record Keeping for R&D Tax Credit Relief

Many think claiming R&D credits would be too much of a hassle as it would require additional record keeping and management for audit purposes. The good news is that, you don't need to keep additional records apart from the ones you already do for tax purposes.

Although, you need to pay a lot more attention when you provide an overview of work done while making your R&D tax claims. Ideally, a short report that highlights uncertainties and advances made by this R&D work is good enough.

Avoid writing a simple list of things you did in your R&D claims. Rather emphasize the uncertainties and the advances.

Now, it is time for you to select what R&D tax scheme is good for your business.

How To Select The Right R&D Scheme For Your Business?

Selecting the right R&D Tax Credit Scheme for your business?

Selection of a scheme largely depends upon whether you are classified as a large corporation or an SME. To make it a bit more helpful and clear: any organization with less than 500 employees or not more than £88,885,000.00 (£88.9M) or less than £76,448,018.70 (£76.4M) in overall assets would be classified as an SME. Anything above those limits is considered a large corporation.

Note that all start-ups fall into the category of SME too.

Once you have classified yourself as either of those, here's how to decide which scheme is right for you:

1. **SME R&D Tax Credit Scheme if you have < 500 employees or < £88.9M revenue or < £76.4M in assets**
2. **Research and Development Expenditure Credit (RDEC) scheme if you are a large corporation**

However, there are a few factors like grants and subcontracting that can restrict an SME from accessing the SME scheme. This means you may need to make a claim via RDEC- or via both schemes.

The table below will show you which scheme is better for your business

WHO YOU ARE	SME R&D SCHEME	RDEC
SME	YES	Can use RDEC if certain conditions are met
Large Company	NO	YES

R&D Grants and Subsidies

R&D Grants and Subsidies

Grants or subsidies that your company receives for your R&D project may make a difference to your R&D claim. The SME scheme is a notifiable State Aid, and a company can't get the SME relief if it is receiving any other notifiable State Aids for the same R&D project.

So if you are thinking of claiming for a project that has already received a grant, it is essential that you establish whether that grant was a notifiable State Aid. The grant provider will be able to tell you that.

If you have received a grant which is notifiable State Aid, for an R&D project, you can't get relief under the SME scheme, but eligible expenditure will qualify under the RDEC scheme. You don't need to reduce the RDEC eligible expenditure by the value of the grant received. If the company has a number of projects it may make RDEC claims for projects that have had State Aid, and SME claims for non-grant funded project(s).

You may have received a grant which is not a notifiable State Aid - examples include de minimis State Aid, Horizon 2020 or Framework Programme funding.

If you have received a grant which is not a notifiable State Aid, or have received any other type of subsidy for one of your R&D projects, you may be eligible to claim under both the RDEC and the SME scheme.

You can claim under the RDEC scheme for eligible expenditure which has been subsidised by the grant or subsidy. In addition, if there is eligible expenditure on the project which has not been covered by the subsidy, you can make a claim for the balance of the expenditure under the SME scheme.

Example Expenditure on project:

£125,000 – staff and consumables Amount of grant received:

£80,000 – potentially eligible for RDEC claim Balance of expenditure:

£45,000 – potentially eligible for SME Claim

R&D Tax Credit Relief in Agriculture

R&D Tax Scheme Overview for Agriculture

The Agri-food sector is increasingly exploiting new science and technology.

A project to develop a new feed or to grow crops that have substantially increased vitamin content, produce better or more reliable yields, or are more tolerant to weather conditions and resistant to blight, would be qualifying R&D.

The scientific and technological advance is in resolving the uncertainty in the creation of a new improved strain. However, work to protect this new strain with plant breeding rights does not qualify as it is regulatory, not scientific or technological activity.

Not every change advances overall knowledge and capability. Creating new Vitamin C rich confectionery simply by adding Vitamin C to the ingredients does not qualify. A competent professional could carry out the process without uncertainty in either combining the ingredients or their reaction in the body when consumed.

Creating an innovative chilled food container that provides a substantially longer shelf life than currently available, would also qualify. The scientific or technological uncertainties to be addressed are in the interactions between the food, gas content and container to keep the food fresh for longer. By contrast, the work in dealing with authorities to comply with extended use-by date regulation would not qualify.

Not all innovation qualifies. A project to create a food container where the innovation lies in the artistic design or presentation of the packaging to encourage prospective customer purchases would not qualify. The uncertainty here is in design or marketing, not in science or technology

R&D Tax Credit Relief in IT

R&D Tax Scheme Overview for IT Industry

The computer games industry provides particularly good examples of innovative projects that do meet the requirements of the R&D schemes and also examples of projects which do not. No matter how original and inventive the game storylines are, these are not scientific or technological advances. The important criterion is not 'what' is produced but 'how'.

A company realised that each object on a game's screen had to be programmed in respect of its interaction with all the other objects. As the game became more complex, more objects were introduced and the amount of code required rose exponentially. The solution was to programme the properties of each object. When the objects interacted, a separate code was no longer required as the inherent properties produced the outcomes. The qualifying expenditure on developing this innovative code qualified for R&D relief.

The ICT sector is so fast-moving that further advances overtake new and ground-breaking developments very quickly. What is important is that a project represents an advance at the time of development. New encryption and security techniques are being developed regularly and in many cases give rise to further advances. Even if the technique is quickly rendered redundant it will probably qualify for relief. The same applies to new search engines using new search methods.

Many advances are in the software field but advances in hardware are not unusual and will qualify for R&D relief if they are designed to overcome a scientific or technological uncertainty. Equally, very small companies dealing in subcontracted work may qualify if the work undertaken is sufficiently innovative, even if the larger contractor's project does not qualify.

R&D Tax Credit Relief in Advanced Materials

R&D Tax Scheme Overview for Advanced Materials Industry

Whilst some companies specialise in the design and production of new materials, other companies find they become involved in this area as an adjunct to their main activities.

A company, specialising in agricultural engineering, used a probe to provide information on the quality of cereals which were transported in sacking. Measurements could only be taken at the top, as anywhere else would damage the sacking. This however did not produce representative samples.

The company designed a material which allowed a probe to enter the sacking and which reverted to a sealed surface once the probe was removed. Although the market for this material was limited, it proved extremely successful in overseas markets. For R&D purposes the company incurred qualifying expenditure in overcoming the uncertainty in developing the material.

A further development arose when the company received orders from Eastern European countries, where the material did not react in the required way in sub-zero temperatures. The company undertook further research to amend the material to meet the requirements of the extreme conditions. The additional expenditure on manufacturing the material was not qualifying but the research costs of amending the material to meet 'cold weather' issues again qualified.

In many projects involving advanced materials, the scientific and/or technological uncertainty can be readily identified. However, the use of 'new' materials in existing processes may also qualify if it can be shown that the outcome has or was intended to significantly improve efficiency, for example, significantly reduce waste.

R&D Tax Credit Relief in Advanced Engineering

R&D Tax Scheme Overview for Advanced Engineering Industry

R&D is increasingly providing an important competitive edge in this sector.

A project is commissioned to produce a prototype (not to be sold) that will test a design for a new eco-petrol engine and exhaust. The goal is to achieve a substantial reduction in eco-unfriendly emissions with a performance at least as good as a comparable engine.

This appears to competent professional engineers to offer hope of achieving a real advance by way of an improvement in vehicle technology. The uncertainty in science and technology is whether this substantial reduction with the comparable performance sought is possible. Even if unsuccessful, this and the construction of the prototype is still a qualifying R&D project.

On the other hand, an innovative in-bus eco-waste bin, where the innovation is in the attractive and appealing presentation of different compartments designed specifically to encourage the usage and promotion of recycling, does not qualify. The uncertainty of persuading people to put their litter in the bin is in the field of social science, not in the field of technology. The technology required would be obvious to a competent engineer.

A project for a new standard bus engine which is substantially lighter, cheaper, or faster to produce than any currently available or known to be possible (for example patented), whilst maintaining performance levels (for example in power, robustness and life) can all qualify as R&D. However, a minor and routine adjustment such as one to incorporate slightly better spark plugs, already designed and used in another vehicle, would not qualify.

R&D Tax Credit Relief in Life and Health Sciences

R&D Tax Scheme Overview for Life and Health Sciences Industry

The creation of new drugs is an obvious example of qualifying R&D in this sector.

Creating a new drug, up to and including Phase III trials, to more effectively and safely reduce the risk of a stroke, is a qualifying project. The salaries of both the scientists and their laboratory assistants doing this hands-on R&D can qualify. However, their work to achieve important regulatory FDA approvals does not qualify, because any uncertainty in achieving these is in regulation, not science or technology.

A project to create a new artificial bladder system for patients with urinary difficulties, substantially more comfortable, safe and leak-proof than any other designed, qualifies as R&D. The advance sought and uncertainty addressed is how to bio-engineer the materials to achieve these qualities, enabling safe insertion and avoiding rejection.

However, where a competitor reverse-engineers this product, for markets not covered by any intellectual property protection, this does not qualify. The advance in science or technology worldwide has already been overcome and the competitor's uncertainty is not an uncertainty at industry sector level, rather an uncertainty in their own state of knowledge.

A project for newly-diagnosed diabetes patients to provide details of their blood sugar to the hospital via a simple internet web form is innovative. It allows the hospital to monitor their condition in real time and advise the patient immediately on how best to manage their condition.

Although this achieves an advance in patient care, any uncertainty associated with the patient's use of the software is not an uncertainty in the technology itself. As such, this is not a qualifying R&D project. The design of the web-based system would be obvious to a competent professional.

R&D Tax Credit Relief in Construction

R&D Tax Scheme Overview for Construction Industry

In general, this is a traditional and well-proven industry. However an increasing number of companies undertake R&D to exceed the traditional methods in terms of life expectancy of buildings, durability or robustness.

A company created a cladding system which had the appearance of 'normal' brickwork but incorporated the capacity for off-site fabrication, improved fire protection and suitability to fast-track production. Mechanical fixing rather than wet mortar provided strength and durability, which together with the capacity to construct in all weather conditions provided significant cost savings. The uncertainty of the materials in the cladding system and the technological uncertainties surrounding fixing were qualifying R&D projects.

Another company specialised in constructing laboratories. To combat contamination the company designed some new buildings with removable sections. Exterior walls could be slid away and a unit could be removed in total and replaced by a new unit before the exterior walls were slid back into place.

The technological uncertainties surrounding the mechanisms to achieve this had to be overcome before the concept proved viable, making this a qualifying project.

A further example of innovation is a company which used wood in part of a project. Traditionally the wood needed to be of a certain age but the company was able to modify a coating so that younger and cheaper wood could be used whilst still having the required qualities.

Significantly this development was a small element of an overall conventional project. Only after discussion with the site foreman did the company directors realise that the modification and application of the coating qualified for R&D relief.

Your Next steps to obtaining this valuable tax credits relief with CCM Carter Collins & Myer

If you would like to receive a Competitive Fixed Fee Quote for your R&D services, please contact us. When you use our services the following are automatic

- A complete Tax Planning Review provided FREE of charge.
- Unlimited FREE Phone Support.
- Unlimited FREE Virtual Meetings
- The right to have a FREE Annual Financial Physical Check Up
- Work On Time - Accounts are guaranteed for completion within an agreed timescale, phone calls and e-mails returned within 24 hours max but usually sooner.
- Monthly Tax & Business Tips delivered by email
- Client Equality - all clients are treated equally irrespective of size of client fee.
- You get the complete guide "How To Make More Profit" worth over £500 and provided for FREE.

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