

INNOVATION INCENTIVE SCHEME FOR SME

BY FOREFRONT REPORTING LTD

ABOUT ME:

- I am Olga Thomson
- Qualifications:
 - PhD in Applied Chemistry
 - Chartered Accountant
- I started life as a scientist, later moved to finance, then combined them into R&D projects specialist
- Iwork for Forefront Reporting Ltd
- I have lived in Scotland since 1997 but I was born and brought up in Russia (Siberia)
- Scotland became my second home but my accent is still strong (it hammers ears of normal people...) but somehow people understand me!

PURPOSE OF PRESENTATION

- Introduction to UK Government Innovation Incentive Scheme that can help lots of businesses getting funds
- Process of claim preparation
- What information is necessary for a claim



RESEARCH AND DEVELOPMENT (R&D) TAX RELIEF FOR SMALL AND MEDIUM-SIZED ENTERPRISES (SME) – OVERVIEW

- In 2000 the government introduced schemes to encourage scientific and technological innovation within the United Kingdom: SME and RDEC (for large companies, less generous scheme) .Today we will talk about SME scheme only and can talk about RDEC other time.
- R&D relief is a Corporation Tax (CT) relief that may reduce your company's tax bill if your company is liable for CT or, in some circumstances, you may receive a payable tax credit (cash payment)
- From 1 April 2015, the relief a company can get has increased to 230% on their qualifying R&D costs.
- To find out if a company is an SME for R&D tax relief purposes we look at:
 - staff headcount (less than 500)
 - either turnover (€100m) or balance sheet total (less than €86m)
- *When accounts are prepared in sterling, convert the turnover and balance sheet totals to euros, using the exchange rate for the balance sheet date*
- *SME definition originates from the European Commission; R&D tax credits are not reliant on EU funding in any way.*

OTHER ELIGIBILITY CRITERIA FOR SME TAX RELIEF SCHEME - RISK

- The SME claimant company must hold the commercial risk in respect of their R&D costs. They can carry out R&D on a client's project, but the terms of the contract must be that they only be paid on a delivery of satisfactory result and therefore will not be paid if they unable to deliver the required outcome.
- If SME is carrying on R&D activities as subcontractor being paid time and materials, in this case subcontracting company would not be holding the commercial risk and would not be eligible for SME scheme.

OTHER ELIGIBILITY CRITERIA FOR SME TAX RELIEF SCHEME – GRANTS AND SUBSIDIES

- Where a project has received any funding which is Notified State Aid, then **no** expenditure on that projects can qualify for R&D tax relief under SME scheme (even if grant is less than project expenditure).

E.g. grant £100,000 but total project cost £150,000 Nothing can be claimed under SME
- The SME scheme is counted as Notified State Aid, that is why it is not applicable to expenditure that has already been subsidised.
- De minimis, Horizon2020, FP6 and FP7 are not notified state aids. Expenditure not covered by such grant can be claimed under the SME scheme. £100,000 cannot claimed under SME scheme but remaining £50,000 can be claimed under SME scheme.

INTRODUCTION TO UK GOVERNMENT INNOVATION INCENTIVE SCHEMES

- R&D tax relief claim is a valuable source of cash for businesses to invest in accelerating their R&D, hiring new staff and ultimately growing. There is no restrictions on how SME can spend money they received due to successful claim.
- Clients normally get their money in 5-8 weeks after submission to HMRC.
- Claim value depends on sector, company and project itself. It can vary from £5,000 to £250,000 per financial year (average claim is £50,000)
- Almost any business in any sector can claim for R&D tax credits as long as the work conducted fulfils the relevant requirements of HMRC.

INTRODUCTION TO UK GOVERNMENT INNOVATION INCENTIVE SCHEMES

- Sole traders don't pay Corporation Tax, therefore as R&D Tax Credit is a Corporation Tax relief they are not eligible to apply.
- SMEs (even start-ups) - however small - which pay Corporation Tax are eligible
- Claim preparation is process that can use up a lot of time and resource, it requires knowledge of relevant legislation . Some companies try to do it themselves but it may result in rejected claim by HMRC. When specialists deal with your claim, business owners can concentrate on running business.
- At Forefront Reporting we take our work very seriously.

ROLE OF FOREFRONT REPORTING

Forefront Reporting Ltd is a company that specialises in HMRC Tax Relief. We put together a network of accountants as well as tax and technical specialists.

We all hear the ridiculous stories about how much Amazon, Google and Starbucks pay in taxes. They are not doing anything wrong, they just have much better accountancy advisors than the average business.

Forefront Reporting helps small and medium sized businesses recovering their costs incurred due to innovation they undertaken by preparing R&D tax relief claims to HMRC using SME scheme introduced by the UK government.

HOW WE WORK WITH OUR CLIENTS- PART I

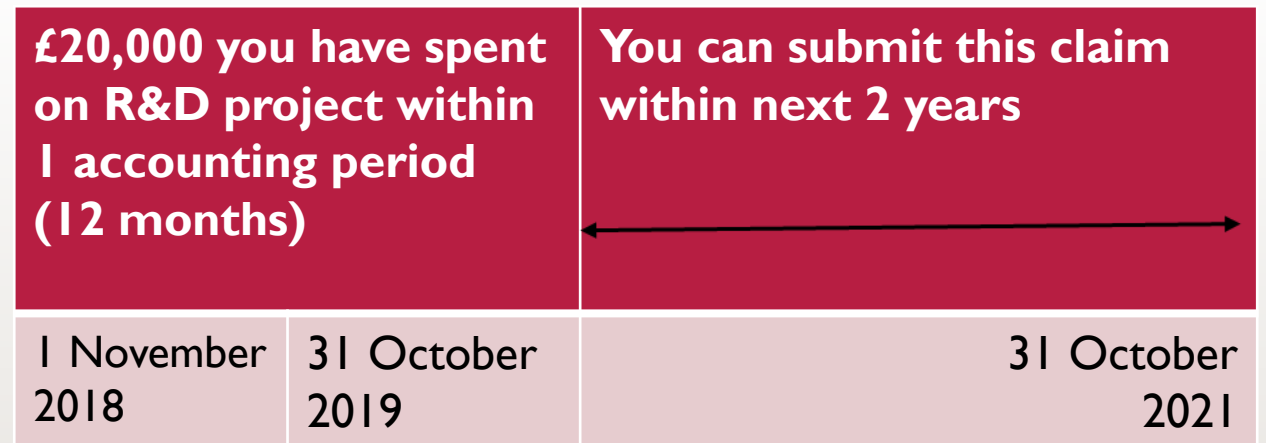
- We begin by gathering information about your business to confirm your eligibility for R&D tax credits. Our assessment will be of your company's size, sector, business activity, ownership structure, any grant funding you've received, and any work you might have been contracted to undertake. All of these can have an impact on your claim value.
- We work with whatever systems and records you have. We won't ever ask you to fill in a spreadsheet or write a project description. However we need a meeting with competent professionals from your company to discuss your projects.
- We identify which of your projects are eligible and document them in the form of Innovation Report.

HOW WE WORK WITH OUR CLIENTS - PART 2

- Having gathered all of the financial information we need for your claim, we will identify qualifying expenditure (what can be included into claim). Then we calculate your R&D tax credit benefit.
- All findings including project description and calculations will be presented for your approval. We will amend your Corporation Tax return (CT600), incorporating your R&D tax credit calculation and help your accountant submitting it on line.
- In the unlikely event that HMRC opens an enquiry relating to your R&D tax credit claim, we will resolve this for you at no extra cost.
- We don't charge unless you receive a benefit.
- We charge our fee as a percentage of the benefit you received.

(R&D) TAX CREDIT CLAIM TIME LIMIT

The research and development (R&D) tax credit claim time limit is two years from the end of your accounting period. Before this period ends you must submit an (R&D) tax credit claim for any qualifying expenditure that you've identified during that period. This is because R&D tax credits are a Corporation Tax relief and the deadline for amending your Corporation Tax return is typically 24 months after the end of your accounting period.



DEFINITION OF R&D FOR TAX PURPOSES

- R&D has a specific statutory definition for the purposes of R&D tax relief which is not the same as the commercial or engineering definitions (it is not blue sky research).
- **Lots of SMEs invest in innovation but do not realise that they do R&D!**

R&D for tax purposes can be broadly defined as work to achieve a scientific or technological advancement by overcoming a scientific or technological uncertainty.

Basis for qualifying R&D from the BIS Guidelines 2010

Two key criteria:

Scientific or technological advancement

Scientific or technological uncertainty



Projects which seek to achieve an advance in science or technology

The solution, or method of arriving at the solution is not readily apparent to an appropriately skilled competent professional

PRACTICAL CONCLUSIONS!

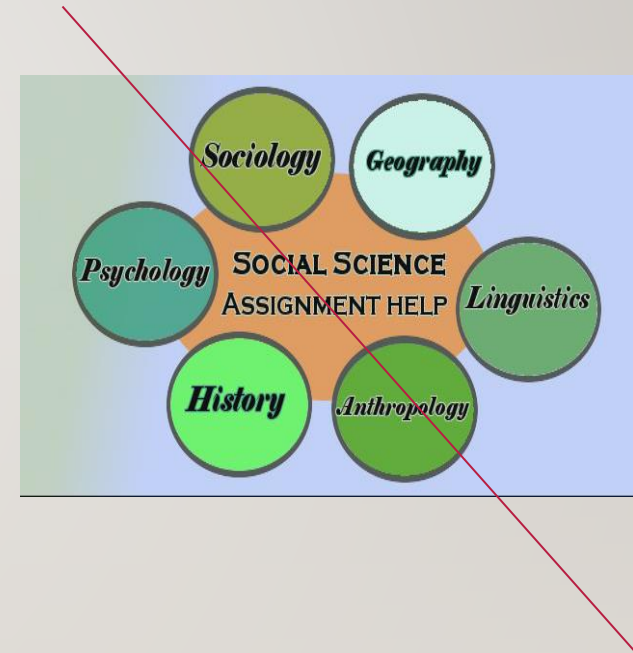
- If you're not sure whether your project is possible, or you don't know how to achieve it in practice, you could be resolving technological uncertainties and be carrying out qualifying R&D.
- Within the government's accepted research and development definition, R&D doesn't have to be successful to qualify
- Innovation report and claim calculations are two main parts of R&D tax relief claim
- The claim should be made in accordance with Chapter 2, Part 13 of Corporation Tax Act 2009 (CTA2009). Both the company and the relevant activities must meet the requirements of the relevant legislation and follow HMRC's interpretation of such legislation based on the published Corporate Intangibles Research and Development ("CIRD") Manual.
- Lots of accountants and FDs are not familiar with these documents- it affects their claims (or the do not claim at all!)

TYPICAL RESULTS OF R&D PROJECT:

- A **significantly new** process, material, device or product or increase in technological capability would represent an advancement
- An **appreciable improvement** to an existing process, material, device or product through scientific or technological changes would represent an advancement
- Using science and technology to **duplicate** existing processes, products and services in a new or appreciably improved way
- (e.g. a product which has exactly the same performance characteristics as existing models, but is built in a fundamentally different manner)

IMPORTANT NOTES

- It's not enough that a product is commercially innovative. You can't claim in respect of projects to develop innovative business products or services that don't incorporate any advance in science or technology.
- Some activities aren't science. **Science doesn't include work in the arts, humanities and social sciences (including economics).**



QUALIFYING EXPENDITURE CATEGORIES

HMRC allows companies that carry out qualifying R&D related to their trade to claim an extra CT deduction (R&D relief) for certain qualifying expenditure.



Type of Expenditure

Staff costs

Externally provided workers (agency)

Subcontracted activities

Software licenses

Consumables (materials), utilities (heat, light, power)

COSTS THAT CANNOT BE CLAIMED

- **You cannot claim for:**
- the production and distribution of goods and services
- capital expenditure
- the cost of land
- the cost of patents and trademarks (registration)
- rent or rates



SOFTWARE DEVELOPMENT AS PURPOSE OF R&D PROJECT

- If your business is involved in software development, there's a good chance you could benefit significantly from the government's R&D tax incentives
- Fundamentally, your claim needs to focus on the underlying technology instead of functionality of software product.
- You may well be carrying out R&D if you are: building cloud software from the ground up; improving your existing cloud software product; or developing technology that allows different systems to interoperate in new ways
- Of course, there are some things that you can't claim for. These include routine work that do not require any advance in capability or the resolution of technical uncertainty even if new software was developed.

R&D IN CONSTRUCTION INDUSTRY



- *The Construction Sector Deal* is partnership between the industry and the government that aims to transform the sector's productivity **through innovative technologies** and a more highly skilled workforce
- **Department for Business, Energy, & Industrial Strategy expects construction sector to deliver:**
 - better-performing buildings that are built more quickly and at lower cost;
 - lower energy use and cheaper bills from homes and workplaces

These goals will be met by focusing on 3 strategic areas:

- Digital techniques deployed at all phases
- Offsite manufacturing technologies will help to minimise the wastage, inefficiencies and delays that affect onsite construction, and enable production to happen in parallel with site preparation – speeding up construction and reducing disruption
- Whole life asset performance will shift focus from the costs of construction to the costs of a building across its life cycle, particularly its use of energy

WHAT COUNTS AS R&D IN THE CONSTRUCTION INDUSTRY? YOU COULD BE:

- Creating, or experimenting with, new materials.
- Integrating new or improved technology into buildings
- Coming up with new ways to implement energy saving techniques.
- Performing offsite fabrication or offsite construction (e.g. modular construction, panelised units)
- Meeting new regulatory requirements e.g. fire, health & safety, sound and thermal
- Providing pioneering methods of construction or combining exiting methods in a new way by :
 - Repairing and/or restoring of listed/unique/unusual buildings
 - Building under extreme weather conditions or limited accessibility.



R&D IN FOOD MANUFACTURING



- There are endless possibilities of where qualifying R&D could take place in the food & drinks industry.
- Food R&D can often arise out of legal and regulatory changes, forcing companies to adopt new processes or ingredients. A good example of this is the recent sugar tax imposed by the government on soft drinks companies, but there are many other less well known regulatory changes going on all the time.
- Incorporating new ingredients into food products where it is unknown how to do so.
- Specific nutritional requirements – such as low calories, sugar, salt or some other ingredient, or a certain amount of good stuff – fibre, protein, vitamins etc.
- Making improvements to shelf life
- Technical process improvements and efficiencies
- Reduction in price
- Free from foods – Gluten Free, Dairy free, diet foods and fat replacers

HOW TO CONTACT US:

- Usually 30 minutes conversation helps making decision whether you are going to make a claim or not.
- You are entitled to make an appointment!
- M: 07938 901 323
- E: olga.thomson@forefrontreporting.co.uk

