Introduction to R & D Tax Credits for MADE Cymru

Dr Simon Ball
RandDTax

simonball@randdtax.co.uk

MANUFACTURE ADVANCED DESIGN ENGINEERING

Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Dr Simon Ball (simonball@randtax.co.uk)

- Worked in senior roles in manufacturing, 1/2nd tier and OEM; and retail businesses
- SMEs and multi-nationals
- Experience in USA and UK
- Have helped businesses benefit from R&D tax credits since 2020
- Based out of Swansea
- https://www.randdtax.co.uk/our-team/dr-simon-ball/
- https://www.linkedin.com/in/dr-simon-ball/

Topics

- Introduction - Who are RandDTax?
- Recognising Qualifying R&D
- The Impact on Companies
- UK Big Picture
- Which sectors gain?
- Myths, Misunderstandings and Mistakes
- What Costs Qualify and Computations
- Case Studies
- So what? Where can we help?

Who are RandDTax?

- Specialist R & D consultancy service that is totally independent.
- UK wide
- We have gained in excess of £195 million for over 1500 companies.
- We are passionate about all aspects of the R&D scheme & engage with HMRC through the RDCC to both gain knowledge of and contribute to any points of debate around the R&D schemes
- Our 100% focus is helping our companies gain the R&D Tax benefits they are entitled to.

R&D Tax Credits Scheme

Administered by HMRC

" Of the various tax instruments available to government, R&D Tax Credits have the advantage that they seek to help companies that are themselves prepared to invest in R&D.

Government does not need to choose sectors or companies, with the result that R&D can be encouraged in the widest possible range of sectors, taking advantage of businesses' own insights into likely breakthroughs"

From The Dyson Report on Innovation 2010

Application software developers

Brewers

Manufacturers

Test and Calibration companies

Bailiffs

Legal Firms

Software tool developers

Refurbishing of industrial components

Manufacturers of machinery

Engineering companies

Security Systems Software

Ice Cream

IT infrastructure

Injection Moulding

Designer and manufacturer of industrial components

Winch makers

Motor Industry

Industrial process control systems

Financial Services Companies

*This is the **only** thing the Government has done to help my business. In order to generate the **financial benefit** my company has had from the scheme. My business would need almost £1 million in sales….*

One company's assessment of the scheme.

Outline

- R&D begins with the desire to achieve an advance which involves resolving scientific or technological uncertainties – and ends when the advance has been achieved and all the uncertainties are resolved.

- The four rules are:
  - Who takes the risk?
  - Is there Science and/or Technology involved?
  - Is there an Advance?
  - Are there uncertainties?

Reasons for under claims

Delve into the reasons why many companies dramatically under claim and find out the real facts. In one case we found a company which had only claimed 15% of their entitlement.

- companies may not fully understand where R&D begins and ends.
- companies, especially those who are very strong technically, often undervalue what they do.
- companies are nervous that if they are seen to over claim, the wrath of HMRC will come down on their heads. So they do not claim what they are entitled to claim.

HMRC Investigations – Why?

Find out what triggers HMRC investigations or exploratory meetings after claims are made, and how best to avoid those.

- Errors in computation in favour of the company.
- Claims for costs that do not qualify.
- Poorly written R&D Technical Justification documents.
- Poorly explained scientific and technological advances.
- Poorly explained scientific and technological uncertainties and explanations of how resolution was attempted.
- Lack of explanation of why those uncertainties could not be “readily resolved by a competent professional working in the field”.
- Claimed qualifying costs which seem way in excess of industry norms and cannot be justified.
- Bad luck.

Record Keeping

Identify the most common problems with gathering accurate costs, and completing the CT600 and Tax Computation aspects of making claims.

- Poor company records.
- Lack of understanding of accurate scope of R&D work.
- Companies and their accountants are under time pressures.
- Most accountancy firms see very few R&D Tax Credit claims so investment in training is not justified.

Common Myths

No Profits – no claim

We are doing company projects – so cannot claim for those

We have had Grants (or Coronavirus Business Interruption Loan or Bounceback Loan) so cannot claim

Myths and Misconceptions

Understanding and clearing up some of the myths and misconceptions which surround R&D Tax Credits.

- Claiming is risky and may lead to broader tax investigations.
- HMRC do not want claims to succeed so make it hard to qualify.
- We need to own the IPR in order to claim.
- We are too small to claim.
- We are just subcontractors, so cannot claim.
- We only develop web sites so would not qualify.
- We do not employ any PhDs.
- Programming is not R&D.

What can be claimed for?

What costs can be claimed for?

PAYE / ERNI / PENSIONS

Subcontractors (65%)

Externally Provided Workers (65%)

Consumables

Scrap

Demo and trial units / prototypes

Utilities

Look at examples of calculating R&D Tax Credits in different situations.

Company Year End 30th June 2019	Profits for CT purposes		£100,000
R&D Qualifying costs			£ 50,000
R & D Uplift at 130%			£ 65,000
R&D adjusted Profit for CT Purposes	**£100,000 less £65,000 =**		**£ 35,000**
Saving in CT (19% of £65,000)		**@19%**	**£ 12,350**

Saving represents 24.7% of qualifying R&D Costs

Look at examples of calculating R&D Tax Credits in different situations.

Company year end 30th June 2019	Loss for CT purpose	(£ 80,000)
Qualifying R&D Costs		£ 50,000
R&D uplift 130%		£ 65,000

Enhanced loss for CT purposes is lower of Loss £80,000 + £65,000 uplift = (£145,000)

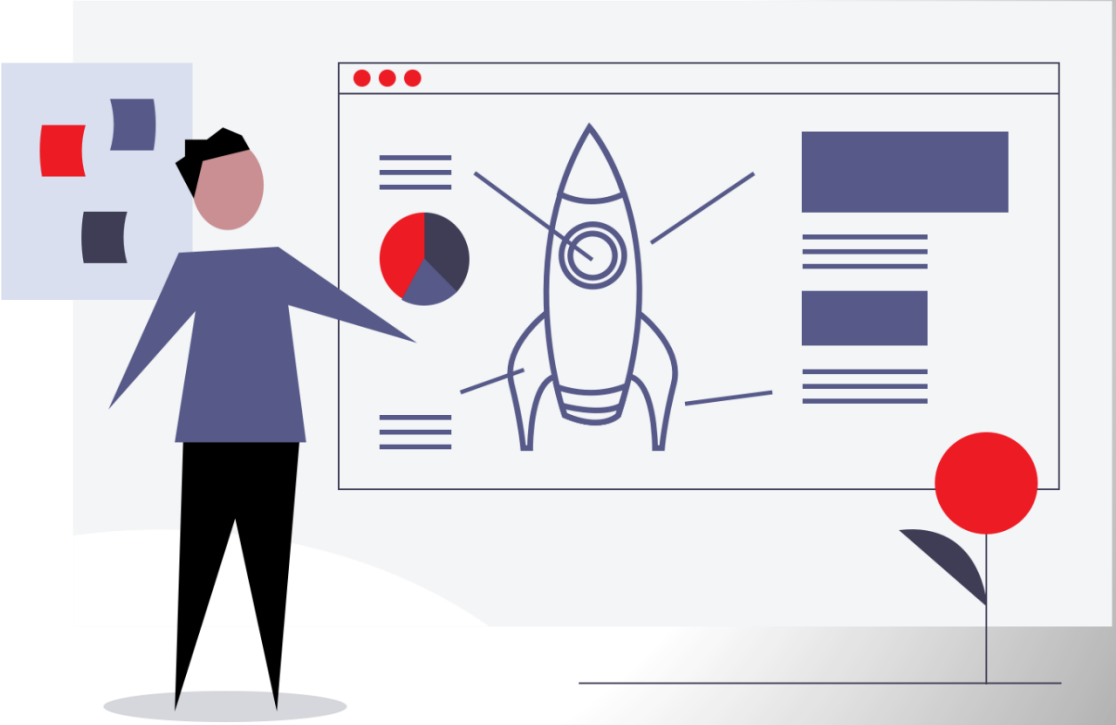
OR the enhanced qualifying expenditure £50,000 + £65,000 = £115,000

£115,000 is lower, so this can be surrendered for 14.5% cash.

So the R&D Tax Credit is worth at least £16,675 or 33.35% of the qualifying costs.

If the whole enhanced tax loss is carried back or forward could be worth 19% of the £145,000 in future years.

Case Studies



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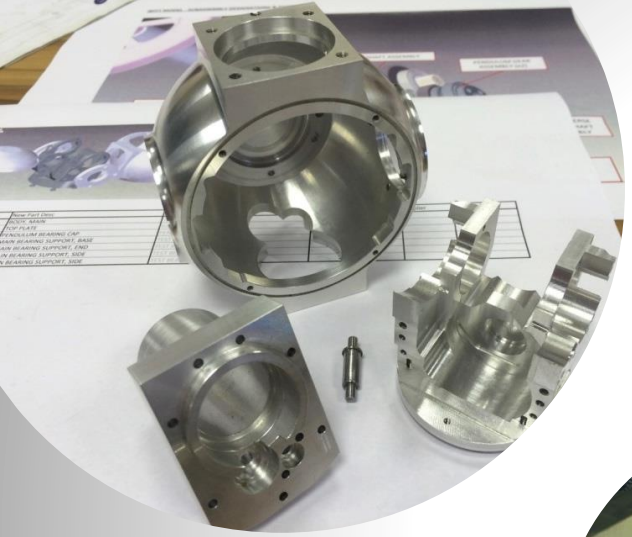
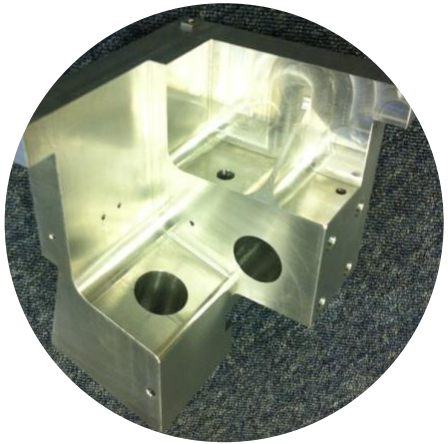


Case Study: Precision Engineer



Profile

- UK-based, Turnover: £1.2m
- P&L Loss: : £100k - £120k pa
- YE: 31-March, Employees: 30

Expertise

- One-off / small batch precision machining, welding

R&D Tax Relief - Key Facts

- Qualifying Expenditure, £180k pa
- Labour, Materials, Software costs
- Benefit (average): Tax Credit £35k

Case Study: Electronic Repairers

Profile

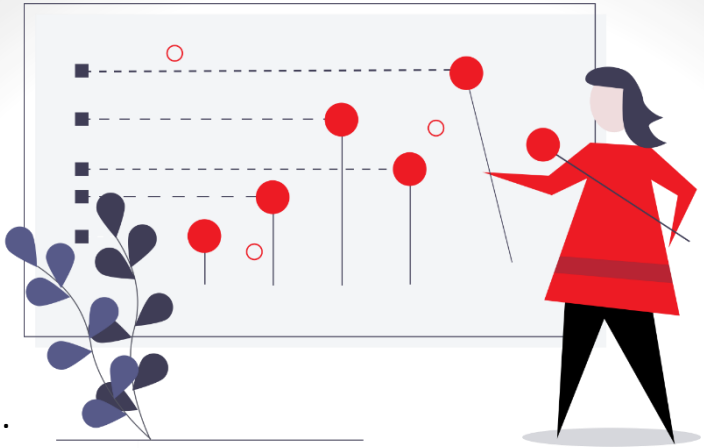
- UK-based, Turnover: £1.6m
- P&L Profit: £200k - £250k pa
- YE: 31-March, Employees: 30

Expertise

- Design and manufacture of Industrial Electronics
- Renovation of industrial electronic controls

R&D Tax Relief - Key Facts

- Qualifying Expenditure, c.£200k pa
- Mostly Staffing Costs, some utilities costs
- Benefit: Tax Saving £50k (four years running…)



Situations where we can help.

- New Claimants where R&D has not been previously carried out or recognised.
- Existing claimant where they want to be sure they are claiming all they are entitled to claim.
- Existing claimants where HMRC have instigated enquiries into new or previous claims or both.
- Situations where companies are using other R&D Tax consultancies and want to compare service levels and/or costs.
- We offer a free audit on previous claims where there is still time for amendments.

Thank you. Any Questions ?

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