



TAX CREDITS

Are you eligible for
RESEARCH and DEVELOPMENT
tax credits?



Forrester Boyd
CHARTERED ACCOUNTANTS



R&D Tax Credits

In the last two years, have you:



Developed a new product or improved an existing one?



Made or attempted a significant improvement to your production process?



Performed bespoke design or engineering services involving technological uncertainty at your own risk?



Created an innovative or unique piece of software?



If so then you could be eligible to make a Research & Development (“R&D”) tax claim.

What costs get relief?

To qualify, the project needs to be seeking an advance in science or technology, by resolving an uncertainty or uncertainties, the resolution of which are not readily deducible by a competent professional working within the field. This means that if you are developing something that is significantly 'better' than your competitors or making significant improvements to an existing product or process, then your work may contain qualifying R&D Costs may qualify if they fall into one of the following categories:

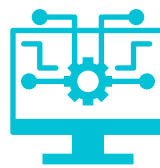
Staff costs



Consumables/ materials



Software expenditure



Subcontract expenditure



The R&D

Tax Credit Schemes

SME Scheme

The R&D Tax Credits SME scheme is available if you have less than 500 staff and a turnover of less than €100m or a balance sheet total below €86 million.*

- Profit making? For expenditure up to 31 March 2023 you can deduct an extra 130% of your qualifying costs from yearly profit, in addition to the normal 100% deduction. From 1 April 2023 this will reduce to 86% in addition to the normal 100% deduction, but at the same time the main rate of corporation tax is increasing from 19% to 25%, so the effect of this change is less severe than it sounds.
- Loss-making? For expenditure up to 31 March 2023 you could receive a cash payment of £33 for each £100 of qualifying R&D expenditure, though from 1 April 2023 this will reduce to just over £18.

RDEC Scheme

The R&D Tax Credits RDEC scheme is for companies/groups that exceed the size limits for the SME scheme, but can also be claimed by SMEs if they do not qualify for other reasons, for example for subsidised costs.

- Above the line credit of 13% of qualifying costs up to 31 March 2023, rising to 20% from 1 April.
- This credit is taxable, so the effective relief is £10.53 rising to £15 for every £100 of R&D spend.
- If loss making the credit can be used to offset other tax liabilities or claimed as a repayment (subject to some restrictions)

*If there are connected or partner companies these may need to be included when determining the size of the business, and receipt of other notified state aid or work that has been subcontracted by another company may also effect eligibility.



Eligibility Criteria

Are you eligible for R&D Tax Credits?

In addition to satisfying the size criteria for the relevant scheme the business must be subject to UK corporation tax and incur costs on qualifying R&D activities for the purpose of an existing trade or a trade that it intends to carry on.

If your company is engaged in projects that could qualify for R&D tax credits, start asking yourself the following questions.

If you can answer yes to each one, there is a good chance you may be eligible.

- Are you working on an innovative project?
- Does your project have a defined start and end date?
- Is it a field of science or technology?
- Is the work you are doing improving what is currently available in the marketplace?
- Are you pursuing scientific or technological advancements?
- Is there a degree of scientific or technological uncertainty involved not readily available or deducible by a competent professional?
- Are you spending time investigating and testing the results?

The construction sector



Areas which indicate that R&D may be occurring include:

- Are there specialist engineers on the project, either in-house or consultants?
- Are there stage payments due in part to having to overcome technical/materials milestones?
- Do the contracts contain extensive indemnity and retention clauses?
- Is prototyping involved?
- Are materials being developed that are cheaper, greener, and more reliable; new combustible or fire retardant materials?
- Is there development of new materials, tools, or evaluation of existing materials/technology, combinations and adaptations of existing materials and products, or binding methods or coatings which haven't been used in the market before?
- Are there new production techniques, including new modular off-site fabrication methods which make the erection of buildings more efficient and accurate?
- Advances in software to resolve challenges (the cost of software itself is allowable as a consumable cost in any case where the overall aim of the wider project qualifies for R&D)

"Your construction company could be missing out on tax relief up to an additional 25%, or a repayable tax credit if you are loss making."

The Technology

Sector

E-Commerce

Today's e-commerce systems mean that almost anyone can sell online - yet setting up and maintaining a large e-commerce operation is still a costly and complex job. Big online stores can throw up huge technical challenges, yet web developers are often unaware that they may be able to claim tax relief on such products.

To ensure you don't miss out, the key is to understand the type of activities that will qualify for R&D tax credits. Generally, sites built using well-established technologies will not be eligible, nor will any work related to the user experience such as content and design.

5 common areas for claims:

1. Availability

Nowadays sites with simple product offerings can be created with an off-the-shelf template. However, problems arise where the product offering is more complex, for example with different design options, colourways or combinations, or where the system needs to check availability and thus link to a back-end database before accepting an order. This type of integration development work may well qualify for tax relief.

2. Sequencing Payments

With some types of purchases, such as travel bookings equipment hire or a bathroom refit, it is common to take deposits or make staged payments. Again, this may require companies to develop new integration technology solutions.

3. Pricing and Promotions

Again, developers may have to be more inventive where there are complicated pricing structures or promotional offers such as 'buy one get the second half price' or 'free bag with every dress'. Promotions like these can be problematic in store as staff attempt to work out which apply, which don't apply and which can be used in combination. It's no surprise that replicating them automatically online creates even more headaches!

4. Eligibility

In some cases, orders can only be accepted where buyers provide proof of identity or eligibility, such as checking their credit score or qualifications. Developers will need to find ways to link to other back-end databases for verification while trying to ensure a swift and seamless process.

5. Fulfillment

Where goods are being despatched directly from a third party, the system will need to integrate with a third party site to check stock and arrange delivery - typically retailers which ship directly from overseas manufacturers or work in partnership with logistics companies.

Web Developers

Web developers may appear to have little in common with scientists - yet some of the more complex sites can officially be classed as research and development projects, which means that developers can claim tax relief for the work.

3 most common areas for claims:

1. Making sites mobile friendly

With responsive design, most sites work automatically on mobiles these days. However, problems often arise in getting native APIs to integrate with different platforms on different devices. Even when they can be made to work, they may not be able to respond fast enough, deal with the level of expected traffic or the supply the data users require. Resolving these issues can be complex and costly but the work may qualify for tax credits.

2. Moving services online

Allowing customers to book online is a great idea as it offers them 24-hour access without the need for an operator. However, in many sectors - from holidays and hire firms to social housing - services often rely on legacy systems operated by trained staff. Therefore web developers typically face the challenge of making an expert user system available for self-service, while accessing data from various back-end systems. Not surprisingly, self-service is a common theme in R&D tax credit claims.

3. Rewriting a CMS

With more complex websites, it is not usually the content creation where problems arise but the way it integrates with the CMS system. While standard CMS systems can cope with a multitude of applications, in some cases developers may have no choice but to adapt the CMS or rewrite it altogether. Examples we have seen include a company with 600 domain names linked to the same CMS and sites pulling in data from multiple sources. Another area that may qualify for claims!





Other **EXAMPLES** where your company may be able to **CLAIM**

- Increasing the speed of applications in games, geolocation and communication
- Second Screen technology, for example enhancement of the delivery of mobile technology to TV
- Software that tracks eye movements, and keystrokes that enhance user experience
- Software that allows programming languages to integrate
- Improving presentation and access to images on handheld devices
- Real-time image processing and image recognition
- Video processing and audio processing
- Integration of tools that build, which have helped the explosion of IoT products on the market
- Internal development of new web-based Customer Relationship Management
- System development of an internal bespoke time recording and billing system
- Translation of software into foreign languages
- Development of iPad and iPhone applications
- Subcontracted development of bespoke software applications

SEO



SEO and PPC campaigns

The projects most likely to be eligible are the complex and challenging campaigns, where you are required to come up with innovative solutions and where there is uncertainty about how effective it will be or whether it will work at all.

4 most common areas for claims:

1. Unclear Guidelines

Google and other search engines change their algorithms frequently and their guidelines are often ambiguous. In some cases, established techniques such as the use of keywords may fail to deliver the expected results and SEO specialists may have to experiment to find out what works while being mindful of those unpredictable and unexpected risks.

2. Overseas SEO

Dealing with western search engines can be difficult enough but improving rankings on sites such as Yandex or Baidu is a lot more challenging and uncertain. Again, the work may involve experiments and trialling different solutions to find what's most effective.

3. Developing SEO Tools

Clever SEO agencies are increasingly developing their own tools to automate the process or measure some aspect of SEO performance. This enables them to then offer this as a standalone product which could then generate ongoing income. This type of product development work is a common theme in R&D tax credit claims.

4. Ranking Pay Per Click

Many clients are surprised to find that the success of pay-per-click campaigns may depend on their website ranking - if Google considered it not so relevant for the target audience, their ads will achieve little visibility. In some cases, resolving the problem is not so straightforward.



Why choose us?

- You pay nothing unless your claim is successful
- Our specialists understand fully HMRC's requirements, so position your project accordingly on your behalf
- Our specialists have identified over £3m of R&D tax relief in the last year alone for our clients

R&D Tax Credits

Your business could be missing out on valuable R&D tax credits or a repayable cash tax credit if loss making.



Are you developing new or improved products?



Are you developing new or improved processes?



Do you employ technical professionals?



Do you encounter design or development problems?



Have you developed unique internal software?

If you can answer YES to any of these questions, then get in touch for a further discussion to see if you are eligible for R&D Tax Credits

Get in touch

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or call your local office from the numbers
on the reverse.

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