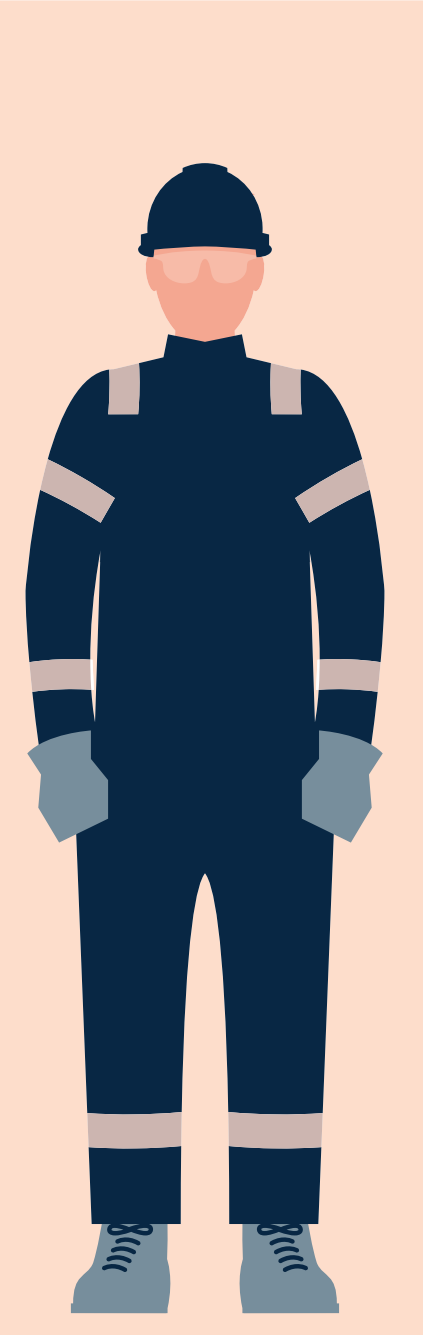
R&D Tax Relief for:
WATER TECHNOLOGY INNOVATORS

Water efficiency is becoming an issue for many industries, with retailers and producers looking at ways of improving the way they utilise their resources. Better waste management not only protects the environment, but it also saves money.



In the UK, companies are charged not just on the volume of wastewater discharged, but also on other criteria, such as the chemical oxygen demand (COD), and suspended solids (SS) in the effluent. The levels of chemicals, oils and pollutants being released into the public sewerage system have to be dramatically reduced, with fats, oils, grease (FOG) causing blockages in drains and sewers, which can lead to flooding and pollution.

THEREFORE, THERE IS A HUGE AMOUNT OF INVESTMENT IN TECHNOLOGY REQUIRED TO MAKE US MORE WATER AND ENERGY EFFICIENT.

Good news all-round.

Water innovators push technological boundaries on a daily basis, with recent innovations such as improved technologies for transforming treated waste into animal feed by-products, and anaerobic digestion plants designed to convert waste products into fuel. Companies are undertaking eligible R&D work and should look into claiming tax credits.

HMRC's guidelines for what constitutes R&D are certainly extensive, but they're not always clear! It can take a fair bit of time, not to mention head-scratching, to pick your way through the terminology and understand exactly how HMRC defines R&D.

Technological uncertainty vs technological unknown

One thing HMRC is clear about is that companies must be trying to achieve their goals by resolving 'technological uncertainties' within specific projects. So what's meant by 'uncertainty'? Well, in the eyes of HMRC, there is a vast difference between technical uncertainties and technical unknowns. Technical unknowns on their own don't count as eligible R&D, which only kicks in when technical uncertainties arise. The distinction between the two essentially comes down to whether or not a problem can be readily resolved by a competent professional. If it can, then it isn't a technological uncertainty. R&D only begins when conventional knowledge has been applied and exhausted, without a resolution to the problem.

For example

A water technology company aims to develop and improved biological filter. It assesses three filters produced by competitors and tests each to qualify the performance. Although the performance of each unit is unknown at the outset, it is possible to reverse engineer the products using conventional methods. This data may provide engineers with a clear idea on how to improve filtration. In this case, the unknown has been resolved (i.e. the performance of the competitors' product) and, as established methods were used, this doesn't constitute R&D. However, if, once the unknowns have been resolved, it's still unclear how the engineers will develop more robust, durable and efficient equipment, then this becomes a technical uncertainty and R&D begins!

Trial and error

Another minefield on the fine line between eligible and ineligible R&D is trial and error! If you think of trial and error as experimentation using routine methods, then when it's used to remove unknowns that precede R&D it's ineligible, but if it's used to resolve technical uncertainties that form part of R&D then it is eligible.

For example, if a company has to replace an inlet screen due to changes in regulations, and has six alternative options that will do the same job, the process of identifying the most suitable screen is considered routine trial and error and not R&D.

However, if the addition of this new screen has an unexpected impact on the efficacy of the wastewater treatment works, a process of experimentation and analysis will be required to gain an understanding of the interactions involved. This systematic process will develop new knowledge and is considered eligible R&D.

Process improvement.

Advancements in a company's processes only qualify as eligible R&D if they're geared towards advancing science and technology, not simply increasing profits. If a company removes a treatment stage from a process to lower energy consumption, and experimentation and testing with different chemicals is required to maintain the throughput, then this is likely to be eligible R&D. Or, if state-of-the art equipment has been installed to improve a treatment process, but major adaptations are required to resolve technological uncertainties before this improvement can be seen, then this could also be eligible R&D.

Jumpstart can help.

Slippery stuff, and this is just the tip of the iceberg when it comes to the many specific definitions of eligibility on HMRC's website. No wonder companies find applying for R&D tax relief on their own quite so daunting and confusing.

For a free R&D tax credit consultation and analysis of the potential returns you might expect from your projects, contact the Jumpstart team

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