R&D Tax Relief Case Studies – Examples of Successful and Unsuccessful Projects

We ask Technical Analyst Karen Baker, PhD for examples on what makes a project successful for R&D tax relief.

The Research and Development (R&D) tax credit is one of the best tax-delivered incentives in the UK.

ITS NATURE IS VERY DIFFERENT FROM TRADITIONAL TAX PROGRAMMES, AND IS DESIGNED TO ENCOURAGE UK COMPANIES TO DEVELOP NEW PRODUCTS AND SERVICES THROUGH INNOVATION AND TECHNICAL RISK-TAKING.

Supporting innovation in UK businesses

Since 1 April 2015, expenditure under the SME scheme is enhanced by 130%. If companies are unable to use any tax losses resulting from the enhanced deduction, there are provisions to surrender those losses for a payable tax credit up to 14.5% of the surrenderable loss, i.e. up to 33.3p in the pound.

For large companies, since 1 April 2016, the above the line RDEC scheme gives relief as a taxable credit set at 11% of the qualifying R&D expenditure. Loss making companies can benefit from the RDEC either through a cash payment or a reduction of tax or other duties due.

Do you qualify for a tax rebate?

In order to qualify for the R&D tax benefit, the company must show that the project and its associated costs meet the eligibility requirements. In order for the technical claim to be eligible, it must meet three criteria: be classifiable as a project, seek to advance science or technology, and have associated non-trivial technological uncertainties.

THE DEFINITION OF R&D COVERS A LARGE RANGE OF R&D ACTIVITIES INCLUDING:

After being told by a very reputable company that we couldn't apply for R&D tax credits, we then met Jumpstart on their stand at a business trade show and they insisted we could apply.

The next thing a cheque arrived from HMRC!! It really was that straightforward. Let them take the strain, it really is worth every penny.

| MATTHEW TUTT
| MANAGING DIRECTOR
| AREA 52

- Basic research (defined as an advancement of scientific knowledge without a specific practical application);
- Applied research, generally considered to be an advancement of scientific knowledge with a specific practical application;
- Experimental development to create an improved product or process through a technological advance. This is the most commonly claimed form of R&D; and,
- Duplicating an existing product or process but in an appreciably improved way.

Once the technical criteria have been shown to be met, the qualifying related expenditures must be collected. These include, depending on the scheme, staff salaries, contract employee costs, subcontractor costs, and consumables that are used in the R&D activities (including power, software, and materials).

The benefits of the programme include increased cashflow, which is especially important to small, developing companies. It also encourages development of a corporate philosophy that embraces innovation and improvement, and ultimately leads to the company bringing more products to market and makes it less susceptible to competition from other companies.

Case Study#1

It's a Yes!

COMPANY A is a semiconductor manufacturing company. During recent research into quantum dot devices, it has been discovered that the excitation process of the electrons will result in an emission of photons over a range of energies. Limitations in existing research could not demonstrate whether a viable single photon source could be achieved using quantum dots.

Company A proceeds with the experimental development to develop a single photon source in a semiconductor chip. A feasibility study was conducted, and prototypes were created. Three consecutive trials prove to be a failure, with uncertainties existing regarding thin layer deposition film growth to achieve the required wavelength emission band.

This project is eligible because it meets the three technical criteria:

- It is conducted in a scientific field – physics/electronics.
- If single photon sources could be developed using quantum dots, this would be a technological advancement in the research field.
- A feasibility study highlighted the existence of technological uncertainty at the start of the project.
- Prototypes were created following this study, as experimental models to test the findings of such a feasibility study.
- Throughout the project, the company has gained valuable information and new knowledge for the industry on the limitations and challenges of the use of quantum dot devices.

Case Study # 2

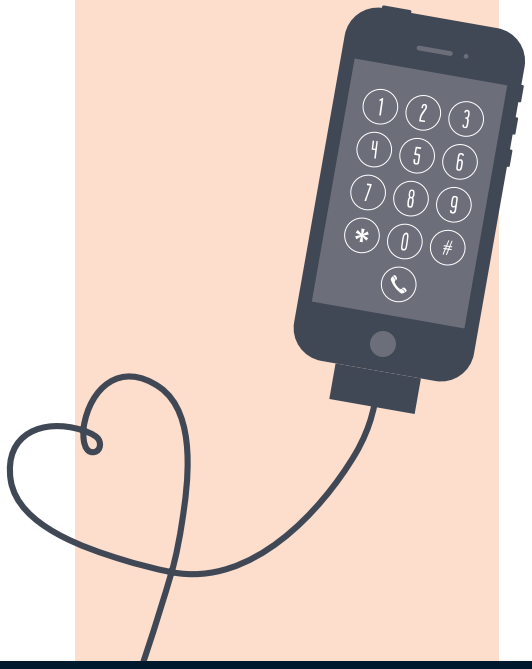
HMRC says no!

COMPANY B wants to reduce the price of its drill bits so that it can be competitive with a foreign manufacturer that has recently started competing in its market. By looking at other worldwide suppliers, they manage to find a US company that will provide newly developed equipment that will produce the drills 40% faster. They also source a supplier in Germany that will provide higher quality carbon steel for the same price as their present supplier. The result is an improved operation that gives a higher quality drill bit that can be produced 40% faster with considerable cost savings to the company therefore making them more successful and outperforming the competitor.

This project fails to meet the requirements of the R&D tax programme. Although there is an advancement in the product and the company becomes more successful, it is based upon off-the-shelf supplies. The suppliers may have developed new products such as more efficient drill bit equipment or a higher grade of steel but these were supplied and the company manufacturing the drill bits is not involved in the R&D. There is no scientific uncertainty in the process. The improvements are financial arrangements and increased quality of equipment and supplies. Although the company's performance improves, they are not eligible.

With the technical expertise of Jumpstart, we saw a massive increase in the money returned for the R&D we had invested in and, now that we have seen what HMRC considers eligible expenditure, I hope our future claims with Jumpstart will be every bit as strong.

| JAMES S MILNE
| CHAIRMAN
| BALMORAL GROUP



Case Study # 3

Success!

COMPANY C is a food manufacturing company, specialising in vegetarian and vegan products. The company wishes to develop meat analogue products, in particular a dried smoked salami-style sausage. At the project outset, no similar cured sausage analogue existed that accurately emulated the taste and texture of the original meat-based product, as it was challenging to mimic the fibrous texture and greasiness of meat. The project was an advancement in the field of food chemistry – it had technical uncertainty due to the low moisture of vegetable protein creating unforeseen challenges in the drying and smoking processes, and achieving a release of moisture on bite to give the perception of greasiness. It required changes in the formulation and trials regarding the shaping and forming of the mixture. Costs associated with the formulation work, as well as the production trials, were allowable under the scheme.

Don't miss out - make sure you investigate your eligibility

R&D tax credits can provide significant financial rewards to companies performing a broad range of activities. R&D tax relief can be complex and time consuming, but if you choose the most appropriate approach and advisor it can be highly worth your time, but consider your options carefully.

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

There is no substitute for experience and expertise. Experience gained through years of daily involvement in putting together thousands of successful R&D tax claims. Expertise built through a detailed programme of training and study, maintained and regularly enhanced.

JUMPSTART YOUR R&D TAX CLAIM TODAY.

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