

Do you undertake Product Development? Are you missing out on Tax Credits?

A number of businesses in the food and beverage sector are missing out on potentially lucrative tax credits available from product development, through HMRC's Research & Development tax incentives.

Estimates suggest that only around 10% of eligible businesses are claiming R&D tax credits and many others failing to apply for the full amount they are entitled to. In addition HMRC data shows that less than 1% of claims are from food businesses. These statistics clearly show that a number of food and beverage businesses must be missing out on receiving the credit they are due.

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What is it?

The tax credit was introduced into UK tax legislation in 2000 with the aim of encouraging companies to increase investment in innovative activities. In return businesses could significantly reduce their corporation tax bill, or if loss-making, to generate tax credit repayments.

The Government established the incentive scheme in order to bring the UK into line with other countries offering similar rewards for innovation, and to boost a vital part of the UK economy.

What's it worth?

**230%
can be
claimed**

Small and Medium-sized companies can claim 230 per cent of their qualifying R&D costs. This means that for every £1,000 of qualifying costs, up to £460 of tax relief is available from HM Revenue and Customs.

If a company is loss-making it has the opportunity of surrendering all or part of their losses for a repayable tax of 14.5 per cent. This provides a lower amount of tax relief, being up to £333 for every £1,000 of qualifying costs, but the immediate cash payment could be a vital source of funding.

What activities qualify?

While R&D is synonymous in the minds of many with 'white coat' scientific research, such as that undertaken in the pharmaceutical industry, the reality is far different. A number of product development activities could qualify, including:

- Improving the taste, texture or nutritional content of a product
- Incorporating new or sustainable ingredients
- Producing sample batches in a test kitchen and then upscaling
- Developing techniques that will reduce costs and/or improve product consistency
- Redesigning processes to comply with new legislation (such as the 'sugar tax')
- Creating new or enhanced packaging to improve shelf life, durability or product integrity

- Creating new or improved methods for minimising contamination, scrap, waste and spoilage

These are just a small number of R&D activities and many projects that aim to improve a business products, processes or packaging could qualify for tax relief.

Claims are time barred – so don't miss out

You can make a claim for the previous 2 accounting years, but any claims prior to that are time barred. For example, if your accounting year end is 30th June, you have up to 30th June 2018 to make a claim for the 30th June 2016 accounting year.

How to make a successful claim

The key to making a successful R&D claim is to demonstrate to HMRC that the business understands the tax definition of R&D, what activities and costs have been identified and how they qualify. With HMRC utilising specific R&D teams to inspect claims, businesses which fail to take a proactive approach to ensuring that applications have the necessary accompanying material may find themselves subject to further enquiries.

“ The key is to demonstrate to HMRC that the business understands the tax definition of R&D. ”

R&D claims can only be undertaken by companies and are made on the company's corporation tax return. The return should include details of the activities undertaken and the qualifying costs on these activities.

Additionally, while a business's most significant R&D costs are often those associated with starting a project, failure to keep accurate records can often result in this expenditure being neglected when it comes to applying for tax credits.

How Menzies can help?

Menzies has a dedicated Innovation and R&D Tax Team who prepare approximately 200 claims a year and generated more than £10 million of tax savings for our clients in the 12 months to 30 June 2017.

**£10 million
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The team will reduce the burden of producing the documentation required to support a claim by analysing a business's financial records and interviewing its staff. We will prepare the necessary report and provide relevant information such as company background, what has been done to identify R&D against the official definition and a breakdown of the costs involved. The document aims to address any questions an HMRC inspector may have in advance, helping the prompt processing of the claim.

Menzies will also prepare the required corporation tax return and computations.

Contact

Should you wish to discuss this further then please contact Dave Gosling at Menzies LLP on:

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