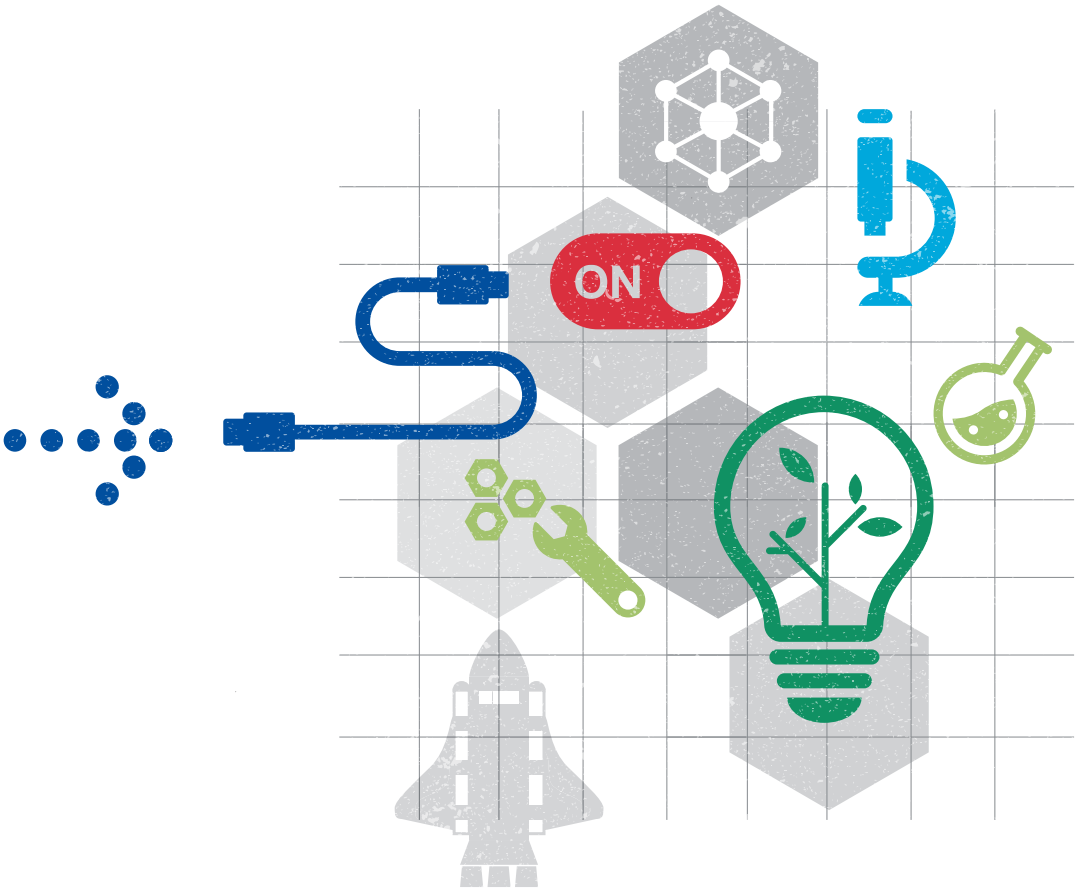
PKF FRANCIS CLARK

Shared Ambition



Research and development

Companies conducting qualifying development work can claim government-backed tax reliefs of up to a third of the associated costs.

What are R&D tax credits?

The Government regards investment in research and development (R&D) as crucial to economic success. R&D tax relief is designed as an incentive for UK companies to invest in innovation. The relief can be extremely generous and enables the company to accelerate its R&D programme and invest a greater proportion of its profits into such things as hiring new staff or investing in new machinery.

What is eligible R&D?

The scope of what is covered under R&D may be broader than you may think. If there is some element of your work that you cannot do - and to do this you need to create a solution which isn't available on the marketplace - then you may be eligible to claim R&D tax credits. This could be using technology in a new way or even designing new technology to improve or create a process, device, service or product to ultimately mean that you can run and grow your business.

PKF Francis Clark has a specialist R&D team who have experience across a broad range of business sectors. Their expertise has identified numerous opportunities for claiming R&D tax relief where those in the business believed there were none.

How does it work?

Once eligible activities have been identified, a company may look back to the last two accounting periods for the associated qualifying R&D spend on permanent and temporary staff costs, materials used (including utilities), subcontractors and software licences. Relief is then claimed under one of two schemes.

R&D for small to medium businesses
The SME scheme (broadly for those with fewer than 500 employees) is the more generous but comes with complex conditions. Relief is claimed in the company tax return and is given by way of an enhanced deduction from taxable profits and a reduced tax liability of up to a quarter of the qualifying spend. If the company has current year losses, it may claim a payable cash credit of up to a third of the qualifying spend.

R&D for large businesses
Large companies claim a research and development expenditure credit (RDEC) calculated at 13% of qualifying R&D spend (c.10% net of tax) and recorded as income in the profit and loss account.

Capital expenditure is not eligible for relief under either scheme but can instead attract research and development allowances (RDAs) which provide an accelerated 100% deduction from taxable profits.

From April 2023, the tax relief will only apply to activity carried out in the UK - no longer will R&D carried out abroad, but funded in the UK be eligible.

How do you qualify?

If you can answer yes to any of the following questions you may qualify!

- *Do you manufacture anything?*
- *Do you carry out design work?*
- *Have you developed your own software?*
- *Have you developed processes to improve efficiency?*
- *Have you experimented with new equipment or production techniques?*
- *Have you produced prototypes or used pre-production tooling?*
- *Have you been unsure at the beginning of a project as to how the issues will be resolved?*
- *Have you reduced waste from your processes or reused it in a novel way?*
- *Have you developed new tools, products, processes or services using technology?*

Failed projects are also eligible. In fact failure is a good indicator that there was R&D as the technological issues could not be overcome.

If you have worked in collaboration with other companies or employed them to help with the projects this can also be considered as part of the claim.

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Key sectors and example projects

Food & drink	New recipe development to meet consumer demand, government regulations or dietary requirements.
Agriculture	New methods of planting and harvesting using robots to use land which would otherwise be dangerous to farm.
Software development	Development of new programming techniques and algorithms in order to achieve a technological advance.
E-commerce	Development of a software package which could handle vast amounts of data regarding product lines and numerous pricing structures per item.
Manufacturing & engineering	New process development to improve efficiency or increase output.
Construction & architecture	Development and application of new or unusual building materials and novel construction techniques.
Waste management & recycling	Development of a process to recycle heavily contaminated material or mixed waste streams.
Renewables	New methods of harnessing or storing renewable energy.
Marine	New propulsion system or hull form design possibly leading to increased performance characteristics.
Chemical, life sciences & healthcare	Development of a manufacturing process for clinical trials of a new cell therapy.

These examples are for illustration only. There are countless other projects that could qualify. Whilst the sectors mentioned are those we see as being most likely to qualify for a claim, that does not mean others wouldn't. Please get in touch to find out more.

How does it work?

We have a proven track record of successful claims across many sectors. Our specialist innovation and technology tax group comprises of tax specialists and a time served engineer, all with extensive knowledge of the R&D tax relief scheme.

Gathering information:

- *We will determine which of the two schemes apply*
- *We will either visit you at your premises or have a call to further understand the business, to determine potential projects and qualifying activities*
- *We will then help you to gather the financial information we need to produce the financial side of the claim*

Identifying costs:

- *We will make sure that the claim includes all applicable costs in order to maximise the claim*
- *We will produce a first draft of both the report and the figures and share these with you for your approval and comment*

Processing the claim:

- *We will work with your tax adviser to help with the preparation of the tax computations and submission of the claim*
- *We will support you fully in the event of a query from HMRC*

Transparent fee - we will agree a fee structure with you that reflects your circumstances:

- *A fixed fee quote, where it is reasonably clear that a R&D claim can be made*
- *A contingent fee based on the amount of tax benefit secured where the claim is less clear and requires considerably more time investment on our part to determine the existence and amount of the claim*

Complementary services for innovative and entrepreneurial businesses

1

Start up

Choice of business structure

Effective loss utilisation

2

Product development

R&D tax relief

Creative industries relief

3

Fundraising

Seed enterprise investment scheme (SEIS) and enterprise investment scheme (EIS)

Grants

4

Attracting/ retaining key people

Company share option plans (CSOP)

Flowering shares

Enterprise management incentive (EMI) scheme

5

Growth & profit

Patent box

Group v parallel structure

Overseas expansion

6

Exit

Business Asset Disposal Relief

Management buy out/ management buy in (MBO/MBI)

Consideration structure

Post exit wealth management

1 FUNDRAISING
SEIS/EIS

Fast growth companies are often funded by equity raised from high net worth individuals hoping to benefit from tax favoured investment relief in the form of SEIS and EIS.

The benefits of the scheme include deferral of current capital gains, an income tax credit, and an exemption from capital gains tax on the sale of the qualifying shares. Both schemes are complex and specialist advice is recommended. We regularly advise businesses on whether the company and the investors qualify, obtaining advance assurance from HMRC to confirm qualification, valuation, and then reporting the investment to HMRC to obtain the scheme benefits.

2 ATTRACTING AND RETAINING KEY PEOPLE
EQUITY INCENTIVES

A key part of any fast growing business is ensuring that the best talent are attracted and then retained. Good people are always hard to come by.

Typically we see most businesses consider an EMI option scheme; however in certain circumstances this may not be appropriate and instead we may consider a CSOP, growth shares, partly paid shares or a phantom share scheme. We advise many of our clients on how a share scheme or equity incentive plan can help attract the best people and then retain them once in the building.

We have a dedicated team in this area with years of experience of advising in a 'Big 4' environment.

3 GROWTH AND PROFIT
INTERNATIONAL EXPANSION

UK SMEs now trade all over the world and need expert advice and support to do so.

Planning is crucial. It is important that those key early decisions help you share your future success and avoid unnecessary mistakes.

PKF Francis Clark has assembled a team of corporate and business tax advisers who routinely deal with international tax issues working with our colleagues across the global PKF network.

4 EXIT AND SUCCESSION

It is important for fast growing, entrepreneurial business to consider an exit strategy, whether that be a sale to a third party, a management buy-out, or on a partial exit where a private equity house or venture capital is simultaneously making an investment.

Our tax team is experienced in helping clients manage the tax issues arising on an exit.

Our corporate finance team also have extensive and relevant experience, with team members having worked for debt and equity providers (including a number of investment banks) and for the 'Big 4'.

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We're here to help

For more information on how our expert team could help develop your business, please contact:

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