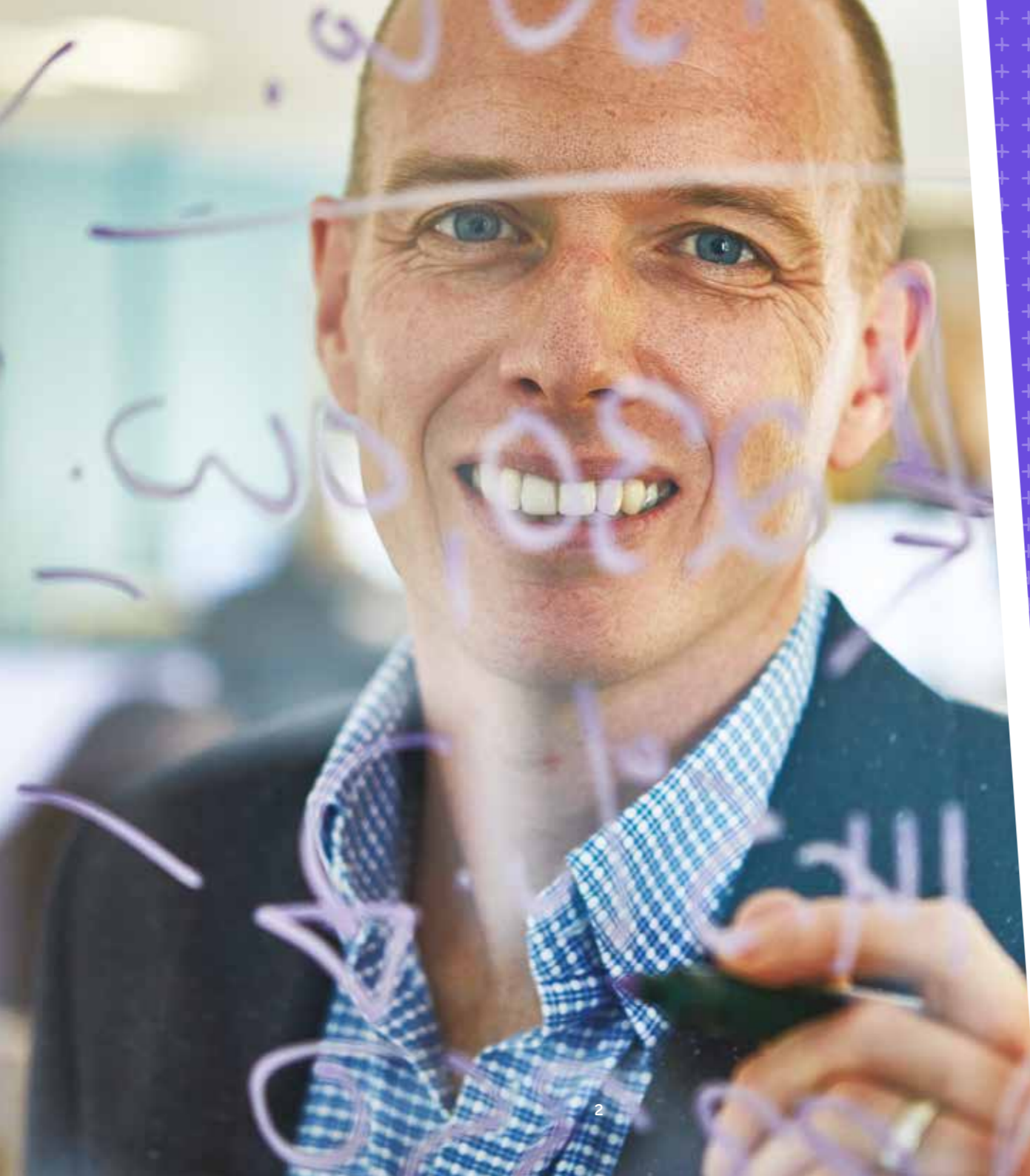


ForrestBrown®

R&D tax credit
consultancy

R&D tax credits explained

Everything you need to know about research and development (R&D) tax credits in one handy guide.



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R&D tax credits in 60 seconds

If you only have a minute to spare right now, read this:

R&D tax credits are a valuable government tax relief that rewards UK companies for investing in innovation.



Companies that spend money developing **NEW** products, processes or services, or enhancing existing ones, are eligible for a cash payment and/or a Corporation Tax reduction.

R&D tax credit rates are the equivalent of up to **33p** for every **£1** of qualifying expenditure.



They can be used as an alternative to innovation grants for research and development funding, or sometimes to complement them.



Sounds good, right?

A surprising amount of activity can qualify for this valuable financial support. Read on to find out more...

Who can qualify?

Many companies are surprised to discover that they qualify for a cash boost from R&D tax credits

Commercial R&D isn't like what you see in the movies – vast laboratories filled with scientists in white coats.

It is done by real businesses developing new, better ways of doing things.

So ask yourself three questions:

1. Are you a company that is subject to UK Corporation Tax?
2. Are you trying to resolve technological or scientific uncertainty?
3. Are you spending money on this work?

Let's take a closer look at the definition of R&D:



For tax purposes, the government definition of R&D is purposefully broad. Whatever size or sector, if your company is taking a risk by attempting to 'resolve scientific or technological uncertainties', then you may be carrying out qualifying activity. This could include:

Creating new products, processes or services.

Changing or modifying existing products, processes or services.

Calling movers, shakers and risk-takers



Do any of these ring true?

Have you done something to differentiate yourself within your sector?

Have you taken on something particularly challenging?



Do you operate in a market that is specialist, niche or heavily regulated?

Do you employ highly skilled or qualified technical staff?

Have you invested time and effort into making efficiency-gains?

Have you taken on risk in trying to achieve something?

If yes, we should talk. Speak to us and see how we can help.

What is research and development (R&D)?

Surprising R&D – it comes in all shapes and sizes

We said that you may be surprised at what can count as commercial R&D. We asked our team to share some of the projects they have included in R&D tax credit claims to show you just how diverse qualifying innovation can be:

"R&D developing an English brie to rival the French, that used non-standardised milk from just one farm to get the perfect rind-to-paste ratio."



Nikki Heydon (TA, Senior Tax Manager)

"Creating a range of microphones that deliver professional quality at affordable prices. This miniature system separates the microphone into two distinct modules. As well as being innovative-looking, they have a classic style and unique sound."



Emma Craig-West, Senior Tax Manager
& ex-HMRC inspector

"A process which allows bottles to be produced in a square shape, where typically hand-made glass products are round in shape."



Alex Price (TA, Director)

"Creating faithful restorations by manufacturing parts for the historic car racing industry, by combining traditional craftsmanship with the latest technology and manufacturing methods."



Nick Jones ACA, Senior Tax Manager

"Leading the industry in producing raw dog food containing human-grade meat and vegetables, gaining scientific knowledge of the benefits of different foods on canine health."



Jenny Tragner (A, Director)

"During the conversion of a barn, a team of ecologists and scientists invented an internal 'hot box' to regulate the internal temperature. This was to protect a rare species of hibernating bat that had taken roost and could not be legally disrupted from the property they had chosen as home."



John McGhee (TA, Senior Tax Manager)

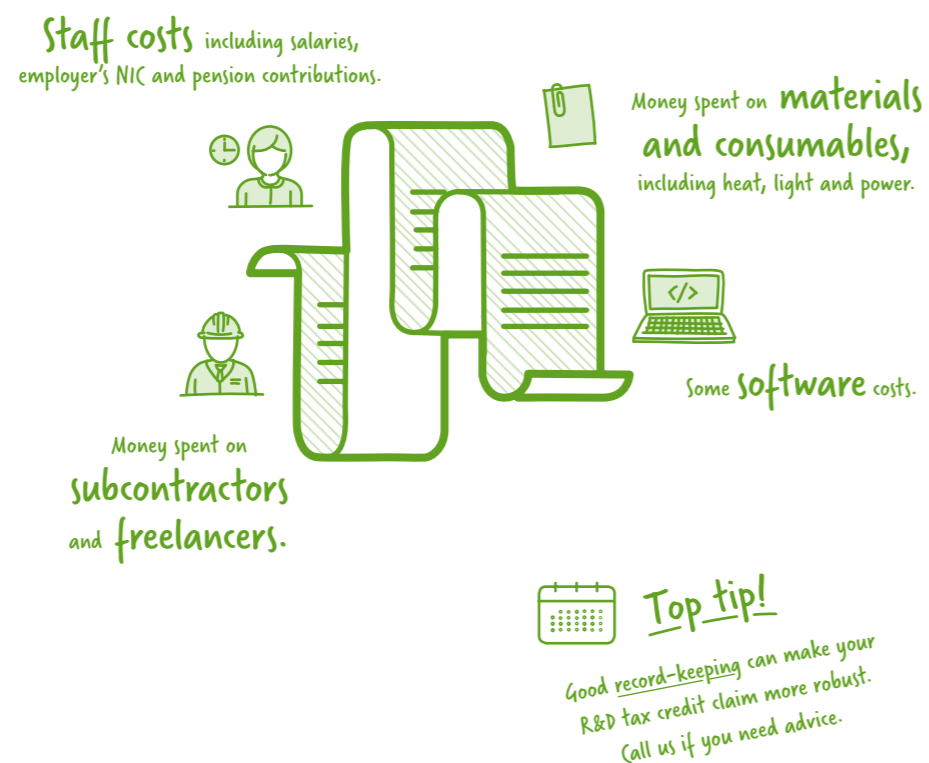
Top tip!

If you are not sure if your innovation qualifies for R&D tax credits, it's always worth checking.

Give us a call,
we are always happy to help!

What R&D costs can I claim for?

The value of your claim is based upon how much you spend on qualifying R&D



Case study – creative, digital and media sector

All digital companies should research R&D tax credits – the results are phenomenal

MMT Digital is one of the top 20 design-and-build agencies in the UK. As a cutting-edge digital agency, their projects often include research and development. But, like so many other digital companies, they simply didn't realise that they qualified for R&D tax credits.

One example of their innovative work was a project to develop a digital proof-reading platform that would save publishers a huge amount of time and money. The aim was to automate routine tasks, enable better collaborative working, build upon traditional paper-based methods with digital solutions like gesture recognition, and assist project management – all on one platform with a simple user interface.

“If you work in the digital or tech space and you are not claiming R&D tax credits, it's a no-brainer. Have a conversation with ForrestBrown to see if you can benefit. Don't get hung up on terminology – 'R&D' covers a lot of different activity. The pay-off of doing so can be phenomenal!”

James Cannings, Co-Founder and Chief Technology Officer, MMT Digital

How much are R&D tax credits worth?

R&D tax credits for SMEs: at a glance



We help SMEs across all sectors receive millions of pounds every month to re-invest back into their businesses.

Most companies, including start-ups, fall into this category and can claim back up to 33p for every pound spent on R&D. They can receive a cash benefit, even if their business is loss-making.

The average claim made by SMEs in the UK is £53,876 (2016-17).

R&D tax credit claims are made through the government's SME R&D tax credit scheme.

How much can my business claim?

First, let's confirm you are an SME. For these purposes, an SME is defined as a company with fewer than 500 staff, and either less than €100 million turnover or €86 million of gross assets.

Your exact return will depend on the qualifying R&D activities and costs that our expert chartered tax advisers identify. But the following shows approximately what R&D tax credits could be worth to you.

Example benefit for a profit-making SME:

Your estimated R&D spend:	Estimated tax refund or reduced tax liability:
£50,000	£12,350
£250,000	£61,750
£500,000	£123,500
£1,000,000	£247,000

See how this is calculated:

$$\begin{aligned}
 &£500,000 \text{ (your estimated R\&D spend)} \\
 &\times 130\% \text{ (enhancement rate)} \\
 &= \underline{£650,000} \\
 &\times 19\% \text{ (Corporation Tax rate)} \\
 &= \underline{£123,500} \text{ (enhanced expenditure)} \\
 &\frac{£123,500}{£500,000} = \textcircled{25\%}
 \end{aligned}$$

Example benefit for a loss-making SME:

Your estimated R&D spend:	Estimated tax credit:
£50,000	£16,675
£250,000	£83,375
£500,000	£166,750
£1,000,000	£333,500

See how this is calculated:

$$\begin{aligned}
 &£500,000 \text{ (your estimated R\&D spend)} \\
 &\times 130\% \text{ (enhancement rate)} \\
 &= \underline{£650,000} \\
 &£500,000 + £650,000 \text{ (enhancement)} \\
 &= \underline{£1,150,000} \text{ (enhanced expenditure)} \\
 &£1,150,000 \times 14.5\% \text{ (surrender rate)} \\
 &= \underline{£166,750} \\
 &\frac{£166,750}{£500,000} = \textcircled{33\%}
 \end{aligned}$$

Although it appears, at first glance, that a loss-making SME receives a larger benefit, this is not the case. Don't forget that if you are profit-making, you will have already reduced your taxable profits by 19% of the R&D expenditure under normal Corporation Tax rules. The R&D tax credit is in addition to this initial reduction.

Top tip!

Receiving grants, sub-contract work? Connected to other enterprises or have overseas operations? Some or all of your claim may fall into the scheme for large companies (see page 12 for further details). This doesn't mean you can't claim, it just means you need expert advice.

How much are R&D tax credits worth?

R&D tax credits for large companies: at a glance



We advise large, complex businesses on the RDEC R&D tax incentive, and deal with HMRC on their behalf.

The average claim made by large companies in the UK is £272,881 (2016-17).

Large companies can claim back up to 10p for every pound spent on R&D – even if they are loss-making.

Tax credit claims for large organisations are made through the government's R&D expenditure credit (RDEC) scheme.

How much can my business claim?

So, how big is a large company? For these purposes, a large company is defined as a company with greater than 500 staff or more than €100 million turnover and €86 million of gross assets.

If this is you, check out these illustrations of how much you could claim.

Example benefit for a large company:

Your estimated R&D spend:	Estimated tax refund or reduced tax liability:
£250,000	£24,300
£500,000	£48,600
£1,000,000	£97,200
£10,000,000	£972,000

See how this is calculated:

$$\begin{aligned} & \text{£1,000,000 (your estimated R\&D spend)} \\ & \times 12\% \text{ (enhancement rate)} \\ & = \text{£120,000 (above the line credit)} \\ & - 19\% \text{ (Corporation Tax rate)} \\ & = \text{£97,200 (after tax benefit)} \\ & \frac{\text{£97,200}}{\text{£1,000,000}} = \text{10\%} \end{aligned}$$

"ForrestBrown have been responsive and proactive in all of our dealings. Continuity of team has allowed them to really understand our business. Their considerable technical firepower through in-house specialists is a great resource for a business like Future. We value our relationship with ForrestBrown and look forward to working with them on future R&D claims."

oli Foster, Group Financial Controller, Future plc



Case study – construction sector

Switching from Big Four to ForrestBrown resulted in a twofold increase

Structural Metal Decks Ltd (SMD) is a construction company based in Poole. They specialise in manufacturing and installing composite decking in non-residential structures. SMD have been involved in many high-profile projects in recent years, including Terminal Five at Heathrow and the Olympic Stadium in Stratford.

The team at SMD knew that they were innovative and had used a Big Four firm to carry out claims for R&D tax credits. But an introduction to ForrestBrown made the claim experience more efficient and delivered better value. When we resubmitted the previously completed claim, the outcome of our thorough approach was a twofold increase in the value of the R&D tax credit.

“Having worked with ForrestBrown we are far more aware of the full extent of our innovation now. We have introduced processes to proactively record relevant costs – timesheets for CAD technicians for example. This means that for preparing comprehensive future claims, a lot of groundwork has been laid. That’s a great position to be in.”

Jamie Turner, Technical Director, SMD





our process

It's a winning formula with a 100% success rate

We have developed an award-winning approach to R&D tax credit claims. It is robust enough to stand scrutiny from HMRC, and adaptable enough to be tailored to our clients - whatever their size, sector or structure.

Most businesses, including start-ups, are SMEs. If this is you, we provide an end-to-end service.

It's personal – we take the time to visit your business.

It's technically excellent – a chartered tax adviser will advise you and compile your claim.

It's rigorous – a quality assurance stage is built in.

1.

Getting to know you

We save you time by quickly determining whether you qualify, and maximise your claim by looking beyond the obvious R&D projects.

2.

Your input

We maximise your claim by talking to the right people in your business to uncover all R&D activity.

3. our output

You get peace of mind that your claim is submitted to HMRC in the best possible shape.

4.

We deal with HMRC on your behalf

We take care of everything to ensure minimal hold-ups and queries.

5.

Receiving your tax credit

You are rewarded for your investment in innovation. HMRC typically takes four to six weeks to process a claim and the credit is paid directly into your bank account.

Who we are

Expert, reliable, and approachable – just three of the reasons to choose ForrestBrown

Why use a specialist?

There is no rule to stop you exploring R&D tax incentives yourself. You will likely find it time-consuming though. Under-claim and you miss out on some of the value. Over-claim and you risk facing questions from HMRC.

Some people will get their accountants to claim on their behalf. But even they are often not experts in this niche area of tax. Many firms of accountants already use ForrestBrown to deliver their R&D tax credit service.

Higher claims, fewer queries

ForrestBrown are experts. We are the only R&D tax credit consultancy with chartered tax adviser status. We have a reputation for accuracy. We have a tiny HMRC enquiry rate - far below the national average. And we frequently uncover more qualifying activity than others. This means more money for our clients – often much more. Our award-winning process (we won best independent consultancy firm at the prestigious 2016 Taxation Awards) has been fine-tuned to deliver the maximum benefit for you with the minimum amount of fuss.

Benefit from our technical firepower

Our team is made up of chartered tax advisers, chartered accountants, technical specialists and ex-HMRC inspectors. It adds up to a level of technical firepower that you will struggle to find anywhere else.

Peace of mind

What does this mean for you? Peace of mind, reassurance that you have the best working for you, and ultimately the likelihood of a more valuable benefit, with less risk attached.

How much do we charge?

We don't charge unless you receive a benefit, so it's risk-free for you.

Our fee covers a completely end-to-end service. We don't tie our clients into fixed-term agreements and there are no hidden extras.

Our fee is normally 20% of the benefit you receive, which you only pay after you have received your payable credit and/or Corporation Tax reduction.



Who we are

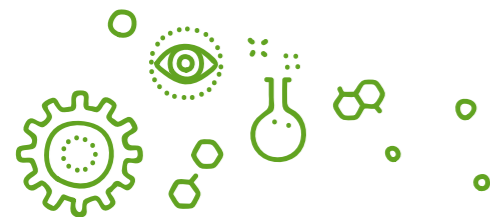
We advise companies of all different sizes,
across all sectors

"Having ForrestBrown on board as experts opened our eyes to the potential to make a claim against a far broader range of activities and expenditure than we initially thought. I'd advise other companies to look very closely at the range of activities that could qualify, as they might be surprised."

Andrew Cranfield, Chairman, P&M Aviation

"Professional and credible, ForrestBrown gave us a lot of confidence in what they were doing. We met staff who had actually worked in the R&D unit at HMRC, so knew what it was like from the other side. I would have no hesitation in recommending ForrestBrown in terms of their professional approach and the more we work with them the easier the process gets."

Noel Murphy, Finance Director, Exception EMS



To find out how we can help you, call or email us. One of our chartered tax team will be happy to discuss your situation.

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