

# How To Find Hidden Research and Development Cash,

**Maximize Your Claim and Reduce Your Tax Risks**

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# Why Is HMRC Giving Away This Tax Free Incentive?

#### The simple answer is that it has to do so to help the government meet its target.

Tax is normally used to change behavior. Either to deter or to encourage certain behavior. The UK is lagging behind when it comes to innovation. In fact, according to a recent study by bloomberg.com, the UK is not even in top 10 countries for innovation.

Currently the UK spends only about 1.7% of its gross domestic product on Research and Development (R&D). Countries like Denmark, Sweden and Austria are spending at least 3%.

The UK has a target of 2.4% by 2027. Can you see the opportunities here? And why this generous tax relief will be here for a while?

So, Research and Development (R&D) Tax Credits are a tax incentive designed to encourage companies to invest in R&D and help the competiveness of the UK and bolster wealth creation in the economy.

Ask yourself this question: Which British company is equivalent to Facebook?

By giving away this tax-free incentive, the government is hoping to spur on innovative companies to raise the bar and help the UK compete on a global scale.

Research and Development (R&D) Tax Credits are here to stay and HMRC keep making it more and more attractive for companies to claim.

To help you claim R&D, small companies can now use the Advance Assurance process. Advance assurance, supports you with your first three R&D Tax relief claim and HMRC guarantees that they will allow the claims without further enquiries.

**1**

**2**

# The £6.5 Billion.

**The Missed Opportunity...?**

#### There are over 5milllion companies in the UK. According to HMRC’s research and Development Tax Credits Figures published in September 2017, only 170,000 claims have been made between 2000 and 2016. The value of those claims were £16.5 billion.

This is an improvement from the 2015-16 report where only 26,000 companies claimed.

However, there is still a massive number of companies who are not claiming this free cash. And that’s a big worry. Think about it the numbers above for a second and ask yourself why aren’t companies claiming this?

Whilst there are many reasons, here are our top 4 Biggest Reasons Why most innovative companies miss out on these claims.

**4 Top Reasons Why Companies Miss Out On R&D Tax Free Money**

###### Lack of Awareness of R&D Tax Relief

Not many companies know that they can claim for additional 130% expenses on top of what they’ve actually spend on eligible R&D expenditure. It sounds too good to be true right…? Well it’s not and because R&D is a specialist area, many accountants and business advisers often don’t have the time or resources to make their business clients aware of this.

###### General Misunderstanding on What the Government Is Trying to Achieve With R&D

Peter Hewkin, CEO of the UK Centre for Business Innovation in Cambridge recently made a thought-provoking comment when he said “A lot of people whine and say they need investment. The thought love response is ‘No, you need a customer who has a need. If you can fix that need, they will pay you. That’s what the Small Business Innovation Research Scheme (SBIR) does”.

Now how many companies are constantly trying to fix difficult problems for customers and trying to raise the bar? How many companies are constantly trying to have a marketing dominating positing by staying ahead of the competition and industry?

Did you know there could be money hiding in the work you do, and that R&D is not just about people in white lab coats?

Admittedly, the language (advance in science or resolving technological uncertainty) used in most R&D guides do not help the average businessman to really understand.

**3**

###### Misconceptions and Myths about R&D (Top 12 Myths)

Did you know there are over 10 myths and misconceptions about R&D that stop companies from claiming this tax credit?

Here they a few.

**We’re not scientists -** R&D is far broader than most people think

**We’re not an R&D company -** there is no such thing like an R&D company as you will soon discover.

**We’ve received grant so cannot claim -** Yes you can through what we call the RDEC scheme.

**Not spending enough -** What about the director’s time and salary?

**Not paying taxes -** Loss making companies can claim

**Failed projects -** The project does not have to be successful

**Non-commercial project -** key requirement is whether you’re raising the bar and/or resolving difficult challenges

**Commercial project and already getting money from it -** key requirement is whether you’re raising the bar and/or resolving difficult challenges

**We’re only a sub-contractor so can’t claim -**Yes you can, depending on your set up

**Sounds like tax avoidance scheme -** No, it’s not. R&D is the government’s way of rewarding companies that are developing new, or improving existing products, processes, devices and materials or advancing the state of knowledge in their sector.

**HMRC will investigate me -** Claiming R&D is not a precursor to tax investigation. Review the section on common mistakes made on R&D claims. Use a good adviser who will take care of all enquiries for you at no extra costs.

**HMRC don’t look into claims -** Wrong. Whilst HMRC are committed to helping companies claim R&D because of the policy reasons mentioned above, they do have a technical team and are aware that some unscrupulous companies will try it on. And so, they do look and enquire into some claims and rightly so. Use a good adviser who will take care of all enquiries for you at no extra costs

Not Using a Specialist To Assist With R&D Claims

Even where companies claim R&D, it’s not uncommon to find that either money has been left on the table or error have been made as a result of not using specialist professionals. Please see the sections on mistakes people make and also the chapter on how to ensure you minimize your tax risks.

The trick is to understand what exactly R&D is and how to stop losing cash to this tax free money.

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**What Exactly Is Research and Development and How To Find Them?**

Tell me something. When you hear of R&D, what springs to mind? Scientists in white coats in labs, big machinery and equipment? Pharmaceutical trials/tests? Or something else?

Ok, there is the bog standard medical and pharmaceutical work which most of us would recognize as research and development. At the other extreme in most small businesses is the work you do to gain competitive advantage and raise the bar in your industry. In the middle is the work or project we carry out for customers which are challenges, and which leave you scratching your heads a few times (the difficult problems that you’re fixing for customers).

*Did you know there could be cash hidden in the last two scenarios?*

Once you start thinking about research and development in these broader senses and put Peter Hewkin’s comments into context, you then begin to uncover hidden cash and wealth in your work and business. See next chapter on some ideas on how to find hidden research and development in your business. There is no such thing as a typical R&D company apart from the scientists.

**Misconceptions and Myths about R&D (Top 12 Myths)**

The following list is by no means exhaustive, but it will help you to start thinking about what you do and start finding hidden wealth in your business. Ask yourself the following questions:

* Are you currently fixing a need for a customer that is innovative or not readily available?
* Is there a need in the market waiting to be tapped into?
* What are the problems and challenges facing your industry?
* What things have you been doing to resolve some of these industry wide challenges?
* How are you making your business harder for competitors to compete?
* What current challenges projects are you working on?
* Have you started a project and thought to yourself “I’m not sure of the best way to do this?”
* Have you developed new tools, products or services using technology?
* Have you had to resolve technical problems with any of your products?
* Have any of your projects failed for technical reasons?
* Have you tried to improve your existing products through technical changes?
* Have you experimented with new equipment or production techniques?
* Have you found more efficient ways to produce your products or services?
* Do you develop software, IT solutions or products?
* Have you sought to develop or improve your manufacturing or engineering processes?
* Do you undertake sampling, testing, trials or develop prototypes or tools?

If you answered YES, to any of the above, then potentially you do carry out R&D and ought to engage with a specialist adviser to carry out an extensive review for you.

Do you see how broad R&D can be? But how easy it is to miss out on this claim if we limit our thinking to just the white coats in labs?

Ok, so how much is the relief worth and what do you do to get…?

## Research and development Tax Relief - What Exactly Do You Get

First of all the tax relief is only available to companies. So if you’re a sole trader and you’re spending money on research and development, you may need to consider incorporating your business.

For every qualifying £100 spend in R&D, you could get an additional deduction of £130. So, in total you get to claim £230. This means you that on a £100 spend, you get to reduce your corporation tax by £43.70 (19% x £230) Not bad is it? It is not uncommon for very small companies to get £5,000 or £20,000 cash back depending on their set up.

If you make a loss, you will get a cash payment based on 14.5% of the lower of the loss or the grossed-up expenditure.

Now this additional cash that can be injected back into the company.

**Here’s a question for you?**

What is the real cost of losing out on say £5,000?

Well if your net profit margin is saying 20%, then you’re effectively losing out on a whopping £25,000 by not claiming R&D.

How? In order to make £5,000 net profit, you will need to work hard to generate income of £25,000!

## The Two Types of Schemes

There are two types of R&D tax relief: Small company scheme (SME) and Large company scheme (also called RDEC)

##### Small and medium sized enterprises (SME) R&D Relief

*You can claim SME R&D relief if you’re a SME with:*

* less than 500 staff
* a turnover of under €100m or a balance sheet total under €86m

*SME R&D relief allows companies to:*

* deduct an extra 130% of their qualifying costs from their yearly profit, as well as the normal 100% deduction, to make a total 230% deduction
* claim a tax credit if the company is loss making, worth up to 14.5% of the surrenderable loss

##### Research and Development Expenditure Credit (RDEC)

This replaces the relief previously available under the large company scheme.

Large companies can claim a Research and Development Expenditure Credit (RDEC) for working on R&D projects.

It can also be claimed by SMEs and large companies who’ve been subcontracted to do R&D work by a large company or who have received grants.

The RDEC is a tax credit for 12% of your qualifying R&D expenditure from January 2018. It used to be 11%.

# How To Ensure Your Project Qualifies For R&D and Minimize The Tax Risks

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The work that qualifies for R&D relief must be part of a wider project which seeks to achieve an advance in overall knowledge and raise the bar in the industry (advance in science or technology) and tried to overcome and uncertainty (test and prototypes to overcome difficult problems or head scratching challenges)

###### To get R&D relief you need to show that:

* Your project aim to create an advance in the overall field, not just for your business. This means an advance cannot just be an existing technology that has been used for the first time in your sector.
* The process, product or service can still be an advance if it’s been developed by another company but isn’t publicly known or available.
* You have or tried to overcome uncertainty
* You should be researching or developing something that isn’t known to be scientifically or technology feasible when you make or discover it. But please do not think this relates to only groundbreaking tasks.

This means that your company or experts in the field can’t already know about the advance or the way you achieved it.

Remember the question I asked earlier on: Have you started a project and thought to yourself “I’m not sure of the best way to do this?”

You should show that the R&D needed research, testing and analysis to develop it. You need to be able to explain the work you did to overcome the uncertainty. This can be a simple description of the successes and failures you had during the project.

**3**

**The project couldn’t be easily worked out by a professional in the field**

* You should explain why a professional couldn’t easily work out your advance.
* You can do this by showing that other attempts to find a solution had failed.
* You can also show that the people working on your project are professionals in that field and get them to explain the uncertainties involved.
* There might be someone else who has worked it out but perhaps due to trade secrets and intellectual property, you would not know about it.

If any of the above sounds too technical, don’t be put off. Simply engage a specialist to assist you.

**What Costs Can Be Claimed and The Hidden Benefit Of R&D Claims**

###### Eligible Cost – SME scheme

You can claim the following costs under the SME scheme:

* Staffing cost for payments to directors and employees - say £9,500
* Expenditure upon Externally provided workers (EPW’s) - Nil
* Payments to subcontractors whether connected or unconnected - Nil
* Cost of computer software and materials – say 2,500
* Equipment used in the project which is eligible for research and Development - £3,000

Total cost = £15,000

130% additional relief = £19,500

Total R&D claim = £34,500 (£15,000 + £19,500) Tax Claim Before R&D = £2,850

Tax Claim After R&D = £6,555 Additional Cash Found = £3,705

###### Hidden Benefit

If company makes 20% profit margin, then the overall benefit of the R&D claim is a whopping £18,525

###### Planning TIPS

Please note that you’re able to maximize the above claim by looking at the remuneration and considering pension payments as well as looking at whether the level of dividends can be reduced.

**12 Mistakes Companies Make When Claiming R&D Which Can Lead To Costly Tax Enquiries**

After reviewing claims and HMRC’s materials, below are the common errors people make when claiming R&D tax credits.

1. Claiming for project activities that are outside the scope of R&D for tax purposes.
2. Claiming for expenditure that are outside the qualifying categories
3. Staffing costs are claimed in respect of people who are not employees of the company and who do not fall under externally provided employees (EPW)
4. Claims are made in respect of overheads that do not qualify as consumable items or consumable stores.
5. Expenditure is claimed on a particular item for a period before it was in a qualifying category.
6. Not applying the special rules for connected parties
7. Not recognizing the eligibility criteria for SMEs
8. Lack of proper checks to ensure that the expenditure is incurred on R&D.
9. Claiming for R&D project which is not relevant to the company’s trade
10. Not being able to demonstrate that the company is seeking an advance in science or technology and its ability to demonstrate what the advance is – it must constitute an advance in overall knowledge of capability in the field (raising the bar or industry standards)
11. Inability to demonstrate that the company resolving technological uncertainty (tackling difficult projects).
12. Not seeking professional help

### How To Make A Claim

You can gather all the projects you’re working on, capture the costs and write a technical report to HMRC to claim R&D. Or you can use our proven system and IP below to start the process.

The P.R.E.S.S.O.N R&D Tax System - (7 Steps Process to Find & Maximize Your Claim Whilst Reducing Your Risks)

**P**repare You For R&D by giving you a copy of this book – We really want to help and create awareness which is we give you a copy of white paper.

**R**apid Review Of Your Situation – We will together go through some of the questions in this report

**E**xtensive Review Via a Meeting – We arrange an extensive review to ensure we leave no stone unturned. Don’t worry we will not send you a technical form and ask you to complete. This often defeats the purpose. But it’s important that we sit down with senior and technical people who can explain the projects to us.

**S**tructure Your Claim - Using our 3-step approach (Draft Report-Cost Capture-Final Report), we will structure your claim including the technical report in a language that HMRC understands

**S**ign, Send Off and Save – You sign the report, we send it off you receive your savings typically within 6 – 8 weeks

**O**pen Up Other Tax Claims – As part of our ethos to uncover hidden wealth for you, we will look to review other areas often neglected for you.

**N**egotiate with HMRC – We will handle any enquiries from HMRC for you.

**Next Steps – Avoid Missing Out**

If you believe you might be missing out on R&D claims, then let’s proceed to the next step and carry out a Rapid review via phone or online.

There’s nothing worse than a missed opportunity. Especially when it’s a risk free one.

You don’t pay us a fee until your advance assurance is confirmed or your tax savings is achieved or your refund arrives

## HMRC Enquiries - 5 Key Areas They Attack and How to Reduce Your Risk

###### Having seen tax cases that have gone to Courts, it is not surprising that HMRC always look at the following 5 key areas when they start to enquire about R&D claims:

1. The Company must have incurred expenditure on R & D.
2. It must be relevant to the company’s trade
3. The Company must be seeking an advance in science or technology and be able to demonstrate what the advance is - it must constitute an advance in overall knowledge of capability in the field
4. The Company must be seeking this through resolution of scientific or technological uncertainty (and again be able to demonstrate this)
5. There must be qualifying expenditure which is allowable as a deduction in calculating the profit of the period.

The above are HMRC’s own words in Court case and we’ve deliberately used them in this report to make two points.

Firstly, to dispel the myth that HMRC don’t look into claims. Whilst HMRC are committed to helping companies claim R&D because of the policy reasons mentioned above, they do have a technical team and are aware that some unscrupulous companies will try it on therefore they do look and enquire into some claims and rightly so.

Secondly to show you some of the technical language used that can often put off many companies including their professional advisers in claiming R&D. Hopefully the sections on how to find hidden R&D and also the section on to ensure your project qualifies helps to bridge the language gap and broaden your thinking.

And if you’re still not sure, don’t be put off. Use a good adviser who will take care of all enquiries for you at no extra costs.

**MEET EVELYN**

A qualified Accountant (ACCA) & Chartered Tax Adviser (CTA).

I have extensive experience working in practice, the public sector & industry. Driven in my pursuit to create a practice where accounting & tax is done differently. I provide tailor-made services to suit the dreams and aspirations of my clients & staff. With 3 Simple Steps, I optimize your tax, improve your business & prevent cashflow crisis.

**WHY PRESSON?**

I'm passionate about making a significant difference to the quality of my clients’ lives. I help to achieve client’s goals, improve cashflow, provide certainty, build their wealth and set up the financial of their family. We assist business owners to uncover hidden tax relief and wealth in their business. We bring the personal touch to every client account. We help you to build your business, grow your wealth give you time to enjoy your success.

We are really fun to work with and I simply love going that extra mile for my clients.

**R&D INNOVATION**

I am a Specialist in tax advice and tax planning within Innovation and R&D. Companies who are creating new products, bringing new ideas to market, launching innovative services or brands can benefit hugely from tax breaks and funding that they may not be aware of. You could be the next client that I can help save thousands for.