



LUMO

An Introduction to R&D

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INTRODUCTION

At Lumo, we have been helping business across the UK get money back into their business through Research & Development tax claims. There is a lot said and written about R&D tax, so we thought that a guide to the process would really help people understand what it is all about and how it can work for them. Obviously, nothing beats speaking to someone about all of this, so if you have any questions while reading this guide, don't hesitate to get in touch. Our expert team are ready to help you understand R&D tax without any obligation to use our service.

This guide aims to help you in the key areas of an R&D tax claim –

- How to submit a successful claim
- Getting the tax man to understand what you have done
- Maximising every claim
- Avoiding the dreaded HM Revenue & Customs enquiry

- What to do if an enquiry does come your way

And we put all of this in simple language, so you can easily know what to do and how to make the most of these R&D tax claims.

Submitting an R&D tax claim is simply following a tried and tested process. Speak to the experts who have developed a successful process over a number of years.

It looks and feels like a simple process to gather all of the figures and submit them to HMRC. But an R&D tax claim is about far more than that. There is a technical side, where the nature of the R&D project must be explained to the tax man. You should know precisely what they are looking for and how to present it.

See '**How to submit a successful claim**' ...

Speaking the language of the tax man can be a difficult thing to do. Just reading through the guidelines from HMRC can leave you in a state of confusion. We break down the code and show you how to get the tax man to understand you and your business.

See '**Getting the tax man to understand what you have done**' ...

Sending an R&D tax claim isn't about getting the process done as quickly as possible. The best route is to make sure you understand it fully and include all of the items that you can claim for. This means you get as much cash back into your business as possible.

See '**Maximising every claim**' ...

An enquiry from HMRC can take up a huge amount of your time and leave you feeling misunderstood or in the wrong. And this is something you don't want for you or your business. If you know what the pitfalls are, then you can work smart and avoid an enquiry from the tax man.

See '**Avoiding the dreaded HMRC enquiry**' ...

There will be times when HMRC want to investigate. You don't have to worry about this. Having all the information at your fingertips helps you to answer their questions and provide the confidence you need to deal with this.

See '**What to do if an enquiry comes your way**' ...

HOW TO SUBMIT A SUCCESSFUL CLAIM

Submitting an R&D tax claim might sound like a big proposition. There are many areas to understand and forms to complete. You could take one look at the guidance on HMRC's website and think that it's not worth the hassle. Believe us, it certainly is. With an average claim of over £35,000, our clients have made R&D tax credits work for their business. If you love reading long and complicated tax descriptions, then you might want to head on over to HMRC's website and read up on their technical descriptions of the tax and how it all works. If you want simple, uncomplicated information that is relevant, actionable and straight to the point, then you are in the right place.

Although the language used by HMRC is often technical and filled with jargon, they expect something quite different from you when submitting an R&D tax claim. They want to know in simple terms what you have done.

Many accountants can produce the facts and figures that show the financial side of an R&D tax claim. But that is only a small part of the picture. What HMRC want to know is what actually happened – and why it counts as an eligible R&D project. There are R&D claims in a huge number of limited companies in the UK. Some industries lend themselves perfectly to R&D tax claims, especially

- Food & Drink
- Manufacturing & Engineering
- Life Science
- Tech / Software Developers

If you are in one these industries, then this guide is the ideal place for you to start, but then check out the specific guide that relates to your business. It is filled with specific ideas that can help you with a successful R&D tax claim.

The key to a successful R&D tax claim is to present things in the right way for the tax man. This comes from experience, and at Lumo we have been doing this for a long time. Here is what we found when putting together R&D tax claims.

WHAT THE TAX MAN DOESN'T WANT TO HEAR

It can be easy to copy and paste data from your website or marketing material and think that this will suffice when explaining what you do. Although this is great from a sales perspective, it doesn't give the necessary technical details that HMRC needs to know.

HMRC wants to know the problems faced, the uncertainties around it and how these were overcome. Making sure that you capture this in the right way makes the difference between a claim that runs smoothly and one that takes over your time and effort. A claim presented in the right way can see the money in your business in as little as 6 weeks. Yes, it's that quick!

THE HMRC ONLY OFFER GUIDELINES

Like so many government departments, the tax man won't help you to submit an R&D tax claim. The guidance on their website shows the broad brushstrokes of what they want. It's up to you to read between the lines. They won't hold your hand during the process – they'll just tell you whether you got it right or wrong at the end.

The safest way to secure the money from an R&D tax claim is to work with someone who knows the system inside out and has walked this path before. Lumo have been submitting successful R&D tax claims for many years with a 100% success rate. This means you get someone who will take the strain for you and help you secure the cash to help your business.

GETTING THE TAX MAN TO UNDERSTAND WHAT YOU HAVE DONE

Putting forward your R&D tax claim to HMRC means that you need to know two things:

1. The technical side of your own industry
2. The requirements HMRC have in terms of what constitutes an R&D tax claim

And the rules keep on changing, with the government altering their focus on different areas of research and development over time. What might have made an ideal way to present a claim a few years ago, might not cut the mustard now.

There are some areas that come up time and time again in terms of R&D tax claims that are rejected or questioned by the tax man. Here is our guide to making sure you don't fall foul of these common areas of concern.

WHAT IS A TECHNOLOGICAL UNCERTAINTY?

The crux of an R&D tax claim is whether it overcame an uncertainty. The idea behind it is that you are spending time, effort and money to resolve these uncertainties for the good of your business. Making your company more effective has a wider impact on the UK economy, which is why the government has put this incentive in place.

People often put forward claims that are not rooted in an uncertainty, and the claim is subsequently rejected by the tax man. Let's look at what this means by way of an example –

A business decides that they want to make a larger version of an existing product. As they look at making it longer, then they find that it means this makes some of the other components react in a different way. Rather than just making it bigger and then producing it, the business needs to overcome the uncertainty that arose with the other components. They carried out a series of tests and eventually came up with the solution. This was an R&D project that dealt with technological uncertainty.

ARE PROCESSES PART OF R&D?

The HMRC is looking in great detail at this part of research and development, and how this relates to R&D tax claims. Some claims that may have been successful in the past in this area might not see the same result in the current climate. The project has to encounter and overcome uncertainties to be counted as an eligible claim.

As an example, if a business decides that they want to buy a new piece of machinery to improve speed and productivity, then this alone won't be counted as an eligible R&D tax claim. But if this new machine requires adaptation to the other processes in the business and causes uncertainty, then this can be part of a viable claim.

IT CAN BE ABOUT THE METHODS USED

Simply trying something out to see if it works isn't research and development in the way that HMRC defines it. The methods used are as important to an R&D tax claim as the results. This all revolves around the premise that we are increasing knowledge. If we get greater understanding by using technical or scientific methods, then this is R&D that will increase the knowledge base and provide a project that can be used as an R&D tax claim.

For example, if a business decides that they want to try a new form of packaging and just try out the available options until they find one that they (and their customers) like, then this isn't eligible for an R&D tax claim. If they test strength, durability and other factors to determine which was best from a point of uncertainty, then this would most likely be seen as an eligible R&D tax claim if presented in the right way.

MAXIMISING EVERY CLAIM

Making an R&D tax claim can feel like it takes up a lot of time. But the effort spent making sure it includes all of the relevant information and brings in the greatest return means you maximise that time. Submitting a claim and then finding that there were other items you could have claimed for is a pain and can mean that your claims come under more scrutiny in the future. Getting it right first time can make all the difference.

Here are some of the tips we have come up with in our time submitting R&D tax claims on behalf of our clients –

STAFFING COSTS ARE ABOUT MUCH MORE THAN SALARY

When calculating staffing costs, it can be easy to get drawn into the situation where you look at their salary and then use this figure in the form. Remember that the costs of employing a member of staff are about more than their basic salary, and can include –

- Employer's National Insurance contributions
- Pension contributions
- Any costs for outside contractors related to the project

Staffing costs are often the biggest expense for any business, so making sure that all relevant costs in this area are submitted as part of a claim can make a significant impact on the size of the eventual claim.

GET AHEAD OF THE GAME

Looking back over a year (or longer) can mean a fuzzy memory when it comes to all the costs associated with a project. Having a set of figures at the end of the year can mean that you don't get the most from an R&D tax claim.

The best way to stay ahead of the game is to keep a record as projects happen. It might be that not all of them are eligible for an R&D tax claim but having the right records will mean that it is all a walk in the park when it comes to assessing these and submitting accurate claims. We suggest you keep records as the year goes on and you will see a better return from your tax claims. As we can look

back over the last 2 tax years as well as the current one, this becomes even more important.

UNDERSTAND HOW GRANTS CAN AFFECT YOUR CLAIM

If you get any kind of grant or subsidy then you can see your R&D tax claim impacted significantly. There are many different grants and incentives, and these are treated in different ways by HMRC. As with the advice above, you should keep records of any grants received and this can be taken into account with your R&D tax claim. The best way to ensure that you are submitting accurate information to the tax man is to work with a partner who understand this area and can guide you. Get in touch with us to find out more.

KEEP UP TO DATE WITH THE HMRC WEBSITE

This sounds like torture to many, but if you want to submit your own claim then you need to stay in touch with the legislation around R&D tax claims. The regulations are being refined all the time, so you should keep checking the website to see what the current rules say, and how they can affect you.

Once you understand what these mean to your business, then you are in a position to ensure your R&D activities are relevant and can be supported when you come to make a claim. Alternatively, work with us. Our team of experts are in constant contact with HMRC and stay on top of any changes that could potentially affect an R&D tax claim for you.

Simply put, you should always remember to –

- Include all related staffing costs
- Keep records as you go
- Make detailed notes about any grants you receive
- Regularly check the HMRC website for updates

AVOIDING THE DREADED HMRC ENQUIRY

Dealing with the tax man can feel like a bit of a pain at the best of times. Dealing with them in the form of an enquiry can feel like the third degree. Unfortunately, if you are the subject of an R&D tax claim enquiry, there will be a lot of questions from HMRC about your projects, your activity and your business.

But there are some sound ways of doing all you can to avoid an enquiry. Here are some great ideas that we have put together from our years of experience with R&D tax claims –

GET THE NUMBERS RIGHT

This seems like the simplest thing, but you would be amazed at how often people get a few numbers wrong and bring about an enquiry from the HMRC. Make sure that the figures you use are an accurate representation of the actual costs incurred by your business in a project. Inflating figures to get a bit more mileage out of a claim just won't get past the eye of the tax man. Make sure you are accurate with this and you will find less chance of receiving a call from the HMRC about your claim.

SIMPLICITY IS THE KEY

With an R&D tax claim, the key is to keep it simple. The tax man won't be blinded by jargon or technical language. Making it complicated is bound to mean that you raise questions. Think about your R&D projects in the simplest terms – and then use those to explain what actually happened in your claim.

It may feel that you need to use some technical terms because your project is technical in nature. But be sure to explain these after so they can be easily understood. Use the knowledge and experience in your business to help put all of this in a language that can be easily understood. We find the best R&D submissions are written by the MD in conjunction with someone who is involved in the processes.

KNOW WHAT R&D IS – AND WHAT IT ISN'T

The definition of R&D can be quite a woolly one in business. But this isn't the case as far as the tax man is concerned. They have a definition and if your project doesn't match it then you won't be successful.

This definition changes as the HMRC updates its ideas. Make sure you have an up to date grasp of what R&D is defined as and how this fits your business. If you don't have a project that fits these criteria, then don't submit a claim. All you are doing is wasting time and shining a spotlight on any future claims you have.

You should develop a thorough understanding of what R&D is (and what it is not) for your business. This will transform the way that you operate and will help you to ensure your business is eligible to make these claims. The people who work in this side of your business will be able to help you understand this in a more meaningful way so be sure to include them in the discussions.

Simply put, you should always remember to –

- Double check all the figures
- Keep it simple
- Understand what the HMRC defines R&D as
- Understand what the HMRC defines as things that are not R&D

WHAT TO DO IF AN ENQUIRY DOES COME YOUR WAY

There may be the odd occasion where you do end up with a HMRC enquiry, despite your best efforts to avoid one. If you find that the HMRC want to ask questions about your R&D tax credit application, then you will need to keep calm and understand what is required of you. Here is our guide to how to deal with that enquiry should it land in your inbox –

KEEP IT PROFESSIONAL

It can feel like you are coming under unnecessary scrutiny, but you shouldn't turn an enquiry into something personal. It is simply a case of HMRC seeking clarification on your application. It isn't personal. It is professional.

Although there may be a lot of stress and emotion coming through, don't think that you should let this out at the tax man. Stay calm and answer the questions in a methodical and clear way. A good relationship with the tax inspector dealing with your enquiry will help to keep the lines of communication open and deliver the best result.

GO BACK OVER YOUR APPLICATION

One of the first things you should do after receiving notification you have an enquiry is to go back through all of your paperwork to make sure you have a firm grip of what it says. Scrutinise it as though you were working for HMRC. It will give you a good idea of where you may need to have a further discussion with them.

DON'T GIVE UP

It can feel like the right thing to do is just folding if the tax man asks a few questions. After all, who needs that level of scrutiny in their business? But if you have followed all the guidance and are sure that you have a valid claim, then don't back down. Stick to your guns and argue your case in a cool, calm and collected manner.

DON'T THINK YOU ARE ON YOUR OWN

There is a lot of professional support out there if you find that HMRC is enquiring and you don't quite know what to do. An expert in dealing with the tax man is probably the best person to speak to the tax man in this situation. If you are facing an enquiry and need help, then get in touch with us and we will let you know how we can help.

Simply put, you should always remember to –

- Stay calm and professional
- Double check your application
- Fight your corner
- Seek professional help



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The Greenhouse, Amos Drive,
Greencroft Industrial Park,
Annfield Plain, Stanley,
Co Durham, DH9 7XN

