

Research and Development Retail

The retail sector

Today's retailers face extremely tough market conditions with new competitors in the form of large scale out-of-town developments and the trend for Internet shopping. This inevitably leads to more time and investment in research and development (R&D). If you are doing any of the following and have not thought about a R&D tax relief claim, you could be missing out on:

- New product and packaging development.
- Upgrades and variations to products for new regulatory and environmental concerns.
- Development of point-of-sale systems to improve processing.
- IT and software development for control systems.
- Development of supply chain processes for supply and stock control.

Background to R&D

Historically, U.K. spend on R&D has lagged behind that of other countries. As part of the government's move to improve innovation and therefore increase productivity, measures have been introduced over the last 10 years to encourage R&D activity.

The R&D tax relief schemes provide nearly £1 billion of support to over 8,000 companies every year. You could be one of them.

What are the tax incentives?

The incentives provided for R&D activities take the form of additional deductions. If you are a small or medium-sized enterprise (SME), the additional deduction is 100 percent on qualifying revenue costs (from April 2011). This equates to a tax benefit of 20 percent.

For large companies, an additional reduction of 30 percent is available on qualifying revenue costs, which equates to a tax benefit of 7.8 percent, following the corporate tax rate reduction to 26 percent.

Qualifying revenue expenditure for an R&D claim includes:

- Staffing costs (including externally provided workers).
- Consumable or transformable materials.
- Power, water and fuel.
- Software.
- Sub-contracted R&D (generally not large companies).
- Clinical trials.
- Contribution to independent research (large companies only).

Any capital expenditure should not be ignored as 100 percent immediate relief is available in the form of research and development allowances (RDAs). These equate favourably with other capital reliefs, as the cash flow benefits are taken in year one, whereas for other allowances the relief is typically spread over at least 10 years.

But is it R&D?

Most businesses will assume that if they do not have a designated R&D department, none of their activities will constitute R&D. The definition, however, is generously drawn and it is likely to include many more activities than you might expect.

If your staff carry out work that seeks to achieve an advance in science or technology, not available to a competent professional in the field, they will be performing R&D for tax purposes.

Payable tax credits

For loss-making SMEs, a payable tax credit is available, equating to 24.5



percent of the qualifying expenditure. The 2011 Budget announced the recommendation to remove the provision limiting the credit claimed to the amount of the company's pay as you earn and national insurance contributions liability, so when this recommendation comes in, likely to be from April 2012, companies in loss making positions will be able to claim the credit for the losses incurred in the year. It will be particularly useful for those companies with low staffing costs.

Time limits

A claim for tax credits, cash back or RDAs must be made within 12 months of the year-end in which the expenditure is incurred.

Remember:

- R&D can take many forms.
- The project does not have to be successful for a claim to be possible.
- Claim does not have to equate to the amount disclosed in the accounts as R&D spend.

We can help

For further advice on R&D incentives, please contact one of our key individuals detailed below, or our technical helpline on 0800 526262. Information can also be found on our website at <http://bankingtaxfinance.com>.

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