

Government Incentives for Business

Are you gaining your full entitlement?

GovGrant

The UK's leading specialist

£185+m gained

6000+ client claims

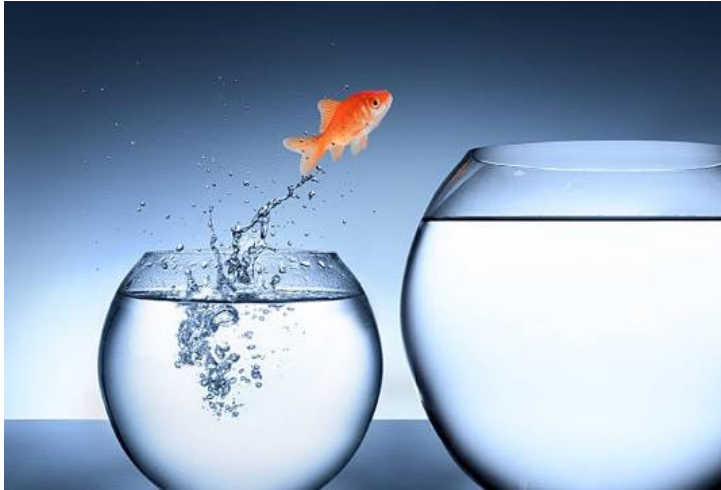
100% success record

Date: February 2019



Introduction

When a UK company wants to improve their business, launch new products or overcome challenges, they will often qualify for valuable Government tax credits /relief.



Yet, the majority of eligible companies do not claim their entitlement to thousands of pounds of government funding each year in the form of:

**R&D TAX CREDITS
THE PATENT BOX
CAPITAL ALLOWANCES**

“If an established organization, which in this age necessitating innovation, is not able to innovate, it faces decline and extinction”. Peter Drucker



Research and Development

The process by which a company works to obtain new knowledge that it might use to create new technology, products, services, or systems that it will either use or sell.

The R&D Tax Credit/Relief Scheme: Introduction



R&D tax credits significantly reduce the cost of eligible product, process, systems & service developments. The scheme is a key part of government strategy designed to encourage greater R&D spending, leading in turn to greater investment in innovation.

- Facilitating “higher risk” development projects
- Supporting an accelerated & continuous development programme
 - Providing that often needed cash injection
 - Lowering external funding requirements
- Enhancing your business’s profile to investors
 - Augmenting company valuation

For SMEs and Large Companies alike the net cash benefit is unprecedented. *Source HMRC*

- £3.5bn was given back to 39,960 UK companies in the 2016/17 tax year to date.
- The average 2016/17 HMRC R&D relief claim payment was £53,876 pa for SMEs and £272,881 pa for Large Companies.
- Companies can retrospectively claim back 2 historic financial years of qualifying activity & every year going forward.
- HMRC stated average time to cash from filing a successful claim is 42 days.

The R&D Tax Credit/Relief Scheme: The benefit



The benefit equates to 25% to 33% of a company's qualifying development costs back

That's 25p to 33p back from HMRC for every pound spent.

For SME scheme entrants claiming over 2 historic financial years the (2016/17) £107.5k average cash payment contributes a significant cash flow injection that is not “prescriptive” in how/where/when it is used.

Equivalent to adding an incremental £1.07m of top line sales on a 10% EBIT in just 4 to 6 weeks from claim filing with HMRC.

- Loss making? A cash credit or offset against future profits.
- Recover cancelled or failed project investment.
- Does not have to be a new innovation to qualify.
- R&D undertaken anywhere in the world.
- Subcontracted R&D activities are claimable.
- Unlike a grant, no criteria on how or what the money is used for.

The R&D Tax Credit/Relief Scheme: It's a matter of fact



The R&D scheme is sector agnostic

Yet, of the 3.5 million small businesses actively trading in the UK, it is estimated that more than half (57%) are eligible for R&D tax credits, yet only 1% of small businesses have claimed the relief, meaning

**Nearly 2 million SMEs have potentially missed out on approximately
£84bn
in 'backdated' research and development R&D tax relief, had they claimed.**

Terminology used in official communication such as “R&D advances in the fields of science and technology” can create a false impression that only companies with formal R&D departments & laboratories need apply, resulting in many companies erroneously believing they do not qualify.

**However, the majority of companies GovGrant meet with are scheme eligible
and have no staff in white coats or R&D laboratories**

The R&D Tax Credit/Relief Scheme: Scope



The scope of the scheme is broader than many believe

Irrespective of industry sector, “R&D for tax purposes takes place when a project seeks to achieve an advance in the overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty”.

- This may also be applied to activities that make an **appreciable improvement** to an existing process, product, material, device or service through scientific or technological advances.
- Advances can be **tangible and intangible**. e.g. efficiency, cost effectiveness, automation, safety, sustainability, durability, strength, yield, weight.
- Can still be an advance if it's been **developed by another company**.
- It can also occur when a company turns something that is **scientifically feasible into a cost effective, reliable and reproducible process, material, device, product or service**.
- in proprietary software, the characteristics of individual components or functions are fixed and known, but there can still be **uncertainty about the best way to combine those components** to achieve a different overall effect or completely new functionality.
- **Pockets of uncertainty can exist within any one project**. As such the whole project may not qualify, only the elements of the project where activities are carried out to resolve the uncertainty.
- **Project failure does not mean R&D was not present**. If the uncertainties were not overcome, the work to address the uncertainties can still be R&D.

“The advance or solution sought not readily available in the public domain or readily deducible by a competent professional in the same field”

The R&D Tax Credit/Relief Scheme: Scheme scope



Much of the work undertaken throughout a business to meet bespoke customer needs, address a design, technical or production challenge, improve systems and capabilities, productivity or efficiency is R&D.

95% of SME claims are around technical advances.

The majority of claimants have no staff in white coats or R&D labs

Company activity indicative of scheme qualification: Does or is the company...

- Carry out bespoke customer focused work and carry the financial risk?
- Inventing, innovating, developing or designing new products & services?
- Developing or improving manufacturing or engineering processes or services?
- Seeking to or appreciably improving or adding value to products, ingredients, materials or devices?
- Developing IT solutions, software or bespoke systems or products?
- Design or manufacturing process involve specially engineered products, components, or software?
- Developed new techniques for faster production or improved quality?
- Developing pilot tools, samples, prototypes or development testing/iterative trials?
- Carry out bespoke customer focused work and carry the financial risk?
- Co-operate in development within a supply chain or with key suppliers?
- Have staff or 3rd parties applying technical or scientific skills to projects?

"If we were certain of the outcome it wouldn't be called R&D would it" A. Einstein

The R&D Tax Credit/Relief Scheme: Claimable costs



The R&D Tax Credit/Relief Scheme: The SME claim calculation



Example: Simplified SME R&D Tax Credit/Relief Claim Calculation (profit making business)

Step 1: Determine scheme qualifying R&D

Project	PAYE staff or Subcontractor	% time on Qualifying Activity	Qualifying Cost
2x Project Staff	2x £35,000	50%	£35,000
Director/Project Manager	£60,000	30%	£18,000
MD & other Indirect Staff	£100,000	5%	£5,000
Subcontractor Invoiced Cost	£40,000	65% of cost	£26,000
Materials-Utilities-Prototypes			£16,000
TOTAL Qualifying R&D expenditure			£100,000

The R&D Tax Credit/Relief Scheme: The SME claim calculation



Step 2. Enhancement

Qualifying revenue expenditure is then enhanced at the current rate (130% from 1ST April 2015).

Then deducted in the following corporation tax computation.

Step3: Corporation Tax Computation

Corporation Tax Computation	£ Amount
R&D Expenditure	£100,000
R&D Relief at 130%	£100,000 x 130% = £130,000
Normal Taxable Profit	£200,000 Tax £38,000 @ 19% (CT rate 1 April 2018)
Taxable Profit LESS R&D Relief	£200,000 - £130,000 = £70,000
Revised Taxable Profit	£70,000 Tax £13,300
TOTAL TAX SAVINGS	£24,700 for a profit-making business or 24.7% of R&D expenditure

The R&D Tax Credit/Relief Scheme: The SME claim calculation



Loss making companies

R&D cash credit:

The R&D spend of £100,000 + the enhanced relief of £130,000 is combined = £230,000
Then surrendered at the current prevailing 14.5% tax credit rate

Returning a cash credit payment of £33,350 = 33% of R&D expenditure

Increasing losses:

Alternatively the £130,000 R&D enhancement can be carried forward to offset the company's future CT liabilities.



A successful, maximised R&D claim is based on its technological or scientific merits. Moving the focal point of making a claim away from a tax accounting exercise to a claim maximising, technologist based activity. Unlike many other aspects of company tax

Technicians, engineers or scientists play a key role in preparing an R&D Tax Credit claim.

GovGrant average historic claim uplift: 200

HMRC inquiries 1:7 claims vs 1:80 for GovGrant managed claims



The Patent Box: Maximising the value of your intellectual property

Creations of the intellect for which a monopoly is assigned to designated owners by law. Intellectual property rights (IPRs) are the rights granted to the creators of IP, and include trademarks, copyright, patents, industrial design rights and in some jurisdictions trade secrets.

Don't just think about protection: Think about value

Intellectual Property is often the most valuable asset a company owns.



Companies that have successful innovation programs with a formal process and a strategic approach to their IP, perform better and grow significantly faster than companies without a formal structured system in place - growing 3-fold difference in 5 years.

45% to 75% of the wealth of Fortune 500 companies comes from their Intellectual Property Rights. *2002 USA survey*

Yet, too few UK SMEs protect, exploit & leverage their Intellectual Property Assets through the business life cycle.

The Patent Box: Introduction



A competitive tax environment to develop & exploit patents in the UK, supporting business investment & growth.

Corporation Tax reduced to 10%

On profits from the worldwide sale of Patented inventions

Scheme eligibility

A UK Ltd company liable to Corporation Tax with revenue & profits from exploiting owned patented inventions.

If the patented element is minor 100% of income can qualify

Profits in the patent pending period qualify following Patent Grant

R&D tax credits can be claimed for the Patent development work

Claim every year of Patent life / incurring profitable income

The Patent Box: Qualification



There are 3 types of patent

- Product
- Process
- Product by Process

Therefore, a company can also benefit from the Patent Box if it uses a manufacturing process that is patented or provides a service using a patented tool. In these circumstances, a notional royalty is calculated.

To be relevant IP income, it must come from at least one of the following:

- Selling patented products
- Licensing-out or selling patented rights
- Exclusive licenced-in patent rights
- Infringement income / Damages, insurance or other compensation related to patent rights



Qualifying Constructs

Patent registered with either: *IPO (UK), EPO (Europe), European Economic Area Countries*

Patent development contribution: *By virtue of the costs, time or effort incurred or due to the value or impact of the contribution.*

Patent in name of claimant company

Identify and calculate profits from qualifying income & scheme elect

The Patent Box: Are you boxing clever?

The Patent Box can add significant business value



- Unlock an annual reduction in Corporation Tax
- Deliver business & competitive advantage
- Protect & exploit your IP
- Increase company valuation

Companies creating inventive products and or processes

- Not thought patentable
- Patent application rejected
- Patent believed to be of too narrow a scope
- Patenting cost thought too high

An IP-Patent Box audit will determine the potential benefit & cost effective solutions to identify & secure your IP

The Patent Box: Boxing clever for our clients



At GovGrant we work with clients to identify Patentable Intellectual Property Assets, cost effectively manage Patent Applications and maximise their Patent Box corporation tax saving.

Our unique blend of in-house commercial, technical & IP expertise enables GovGrant to offer an unparalleled service to our clients, helping them identify, protect and commercialise their Intellectual Property (IP) and increase business asset value.

Filing for patent protection before public disclosure. Public disclosures ordinarily count as 'prior art' and preclude the registration of the patent applied for. Disclosure is considered to include oral and written communication.

IP ownership and chain of title. For various reasons this can be a genuine issue, potentially preventing companies from realising their entitlement under the scheme

Patent for a product already in the market. Our solution is to look for & find hidden “trade secrets” in the existing product. The client ultimately profiting from both patent grant and Patent Box CT relief.

Patents with limited remaining life. A client had one patent with 1 year of life remaining. We identified 3 patentable inventions around hidden and undisclosed processes & trade secrets featuring in 80% of their products, covering 98% of business revenue and eligible for Patent Box relief every year of the product’s future life.

Rescuing “Dead” patent applications. When a patent application is rejected many companies assume that is the end of the matter.

Developing a Patent for licensing out. Ownership and rights are two different things.

Innovation Harvesting. Broadening the scope of revenues that go into a Patent Box claim.



Commercial Property Capital Allowances

The main form of tax relief against expenditure on commercial properties of all types

Capital Allowances: It's a matter of fact

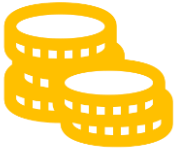


Available to owners of a commercial property, either freehold or long leasehold, whether a UK company, partnership or individual, subject to either UK corporation or income tax.



Whenever a client is spending money acquiring or developing property capital allowances can apply

Capital Allowances: The benefit?



Capital Allowances are regularly claimed on items such as computers, office furniture and cars but other significant tax savings available through other 'plant and machinery' items embedded in a client's property are not always identified.

**25% to 45% of the money spent on property & its
qualifying plant & machinery in tax relief**

The regime has improved substantially

Use your Annual Investment Allowance (AIA)

- AIA gives 100% tax relief on the first £1m of expenditure identified as plant and machinery, but it must be claimed within 2 years.
- At the current CT rate of 19 % this equates to a £190,000 of tax saving in year one, (or tax rebate if amending a tax return).

100% allowances on environmentally beneficial investments (ECA's)

100% allowances on R&D investments, buildings and equipment

100% business premises renovation allowances in disadvantaged areas

150% land remediation allowances for contaminated land

Capital Allowances: What's Claimable?



A Broad Scope

Power & Lighting	Heating Systems	Air Conditioning	Hot Water Systems	Window Installations	Kitchen Fittings
Fire Alarm Systems	Electrical Ventilation	Carpets & Curtains	Data Systems	Door Entry Systems	Thermal Insulation
Electrical Systems	Sanitary Ware	Specialist Flooring	Suspended Ceilings	Fitted Furniture	External Solar Shading
Security Alarms	External Signage	Electric Power to Mechanical Equip	Lift Installations	Emergency Lighting	Roller doors

c.90% of owners have not fully claimed

Capital Allowances: What's Claimable?

An additional £390K allowance. 65% of the refurbishment costs
4x more than originally identified

Spot the difference

data based on an actual case study

£87,000

Accountant	Refurbishment	£600,000.00	Reclaimed %
Elements	Filing cabinets		
Elements	Desks		
Elements	Chairs		
Elements	Printers		
Elements	Telephone		
Elements	Computer equipment		
Accountants CA claim	Total	£87000.00	14.5%
Summary	The above refurbishment cost in the region of £600,000. The accountant had claimed capital allowances for the amount of £87,000 in relation to filing cabinets, desks, chairs, computer equipment and telephones.		

Aspects claimed by clients accountants

Spot the difference

£390,000

CASLUK	Refurbishment	£600,000.00	Reclaimed %
Elements	Filing cabinets		
Elements	Desks		
Elements	Chairs		
Elements	Printers		
Elements	Telephone		
Elements	Computer equipment	£87,000.00	
Elements	Ventilation		
Elements	Lighting / Power		
Elements	Alarm system		
Elements	Flooring		
Elements	Data installation		
CASLUK Claim	Additional	£390000.00	65%
Summary	We re-analysed the £600,000 expenditure, omitting what the accountant had previously claimed and located the client a further £390,000 in tax relief. This equated to 65% of the refurbishment costs and 4 times more allowances than the accountant had initially claimed.		

Aspects claimed by clients accountants

Additional items claimed for by CASLUK

Additional items claimed

- Ventilation
- Lighting/Power
- Alarm System
- Flooring
- Data Installation

Capital Allowances: Why review?



Commercial property owners and investors

Can retrospectively claim for unused allowances (often going back years), for alterations, extensions and upgrades to their buildings.

Commercial Property Buyers & Sellers

Maximising the CA position for a commercial property owner is not only a beneficial cash exercise by way of reducing taxable profits, it is now a mandatory requirement to pool the allowances in commercial property transactions.

If the contract is silent, the allowance value for all qualifying expenditure for the new owner (and all future owners) is deemed as nil.

We would encourage all property owners

To instigate a review of any investment properties held without claiming Capital Allowances

The position on properties likely to be sold over the next few months/years



Business Funding & Financing Additional Sources

Business funding: Additional sources



Grants Targeted to assisted regions & projects. Match funding can apply.

www.gov.uk/business-finance-support-finder

www.gov.uk/guidance/regional-growth-fund-programmes-guide,

www.gov.uk/government/collections/innovation-grants-for-business-apply-for-funding, www.greatbusiness.gov.uk/

www.smallbusiness.co.uk/financing-a-business/government-grants,

<http://startups.co.uk/growth-finance/>

Innovate UK Funds, supports and connects innovative British businesses to accelerate sustainable growth e.g. Smart Grants – Competitive application. To £250K match funding www.innovateuk.gov.uk/

Horizon 2020 R&D grants to help innovative enterprises develop their technological breakthroughs into viable products with real commercial potential. €80bn between 2014-20

<https://www.gov.uk/horizon-2020>

Innovation Vouchers £2.5K - £10k. Often match funded. To access external /academic knowledge providers

Follow on Innovation Vouchers Up to £20k

Start up Loans Funding, support & guidance. Up to £25K over 1-5 years at 6% interest www.startuploans.co.uk/

The British Business Bank Govt. owned development bank for SMEs www.british-business-bank.co.uk

Business funding: Additional sources



Business Funding Club: UK's leading network of entrepreneurs & funders with regular events, seminars, workshops. London based but covers / includes all the below as members.
<https://www.businessfundingshow.com/business-funding-club>

Seed Accelerators & Incubators Early stage funding & mentoring. Usually take equity
e.g. Seedcamp - Springboard - TechStars - Wayra - Startupbootcamp

Crowdfunding Internet-based platforms connecting borrowers with investors
e.g. Crowdcube - Seedrs - Kickstarter www.ukcfa.org.uk

Business Angels Start up / growth capital + help, advice & contacts
www.ukbusinessangelsassociation.org.uk

P2P & P2B Loans Internet-based platforms matching borrowers with lenders
e.g. Zopa - Funding Circle - Ratesetter - Thin Cats www.p2pfa.info

Invoice Financing Factoring & discounting
e.g. Market Invoice - Platform Black www.compare-invoice-factoring.com

Asset Financing Operating or finance lease with the loan secured on the asset www.fla.org.uk

If you always do what you always did, you will always get what you always got.

Albert Einstein

**To ensure you are not missing out
& to know how much £ you may be entitled to**

Simply contact

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**For more information & a complimentary
scheme pre-qualification assessment**