

LIFE SCIENCE

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INTRODUCTION

Life science is an area that has seen a huge amount of investment over the last few years and that doesn't show any sign of slowing down. Improvements to healthcare have come on leaps and bounds with the advent of new technology. But all of this investment needs cash behind it to support the future. The government has identified this as one of the key areas the UK leads the world. And this is why it is supported with R&D tax credits.

If you want to know more about the R&D tax credit system, then read through this guide. If you still have questions, then call our friendly team for more support and advice. This guide is designed to help you with these key areas -

- How to submit a successful claim
- Getting the tax man to understand what you have done

- Maximising every claim
- Avoiding the dreaded HMRC 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.



An R&D tax claim for your life science business is easy if you know how to present it. We have been doing this for a number of years and are here to help you.

Pulling together the facts and figures relating to the R&D in your life science business is one thing. But HMRC want to know more than that before they part with their cash. You need to be able to explain the technical side of what you do too.

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

There will undoubtedly be a technical side to your work. But technical language doesn't explain things simply – and that is what the tax man needs. We guide you on the best way to present your projects to secure cash back into your business.

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

You want to make the most of an R&D tax claim. After all, if you are spending valuable time completing it then you want the most return for that time. Read this section to ensure that you have all the costs included.

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

You don't want to face an HMRC enquiry just because you didn't double check the details. We show you where the common mistakes are and how to avoid them to ward off the threat of an enquiry from the tax man.

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

Unfortunately, there may be a time when HMRC wants to look deeper into your claim. Don't worry if you are facing this situation. Here we show you how to stay in control and deal with any questions the tax man has.

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

HOW TO SUBMIT A SUCCESSFUL CLAIM

One look at HMRC website around submitting an R&D tax claim and you could be forgiven for running a mile. As complicated as your life science project might be, the guidance on tax is always enough to scare anyone. But bear with it. The average claim we at Lumo submit on behalf of our clients is over £35,000, so it is worth spending the time on. And life sciences are perfect for R&D tax claims. If you fancy reading through all of that detail from HMRC then go ahead. If you want your information in bite-size pieces that are easy to understand and actionable then you are in the right place.

There may be a lot of technical information on HMRC website, but that's the last thing they want from you. Submitting an R&D tax claim is about breaking through all the technical things that are happening in your life science business and explaining it in layman's terms. Think about how you might explain what you do to someone off the street.

There are two parts to an R&D tax claim –

1. The numbers relating to your R&D projects – the cash spent by the business
2. The explanation relating to what you actually did – the actions taken by the business

The figures will probably be at your fingertips, via an app or your accountant. But what about the explanations? They can be much harder to come by. The tax man wants to know what happened in your business for this to be a valid R&D tax claim. Can you show them that?

Life science is a huge industry, worth an approximate £50 billion to the UK economy, and there are so many different aspects of it that could be included in a successful R&D tax claim, including –

- New devices or pharmaceuticals
- Alteration of processes to manufacture existing devices or pharmaceuticals
- A new production line or facility
- Gaining accreditation or permission to sell a product by the relevant authority
- Scaling up processes as demand increases

- Continuous improvement teams
- Repurposing existing products
 - Hardware and software systems needed to facilitate the above

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.

HMRC ONLY OFFER GUIDELINES

There is only so much specific information HMRC can give. Their advice consists of guidelines and is generic, relating to any business or industry. You will have to read between the lines if you want to understand what they are looking for and provide the evidence that will make your claim run smoothly.

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.

WHAT THE TAX MAN DOESN'T WANT TO HEAR

Your marketing materials to your customers serve a purpose – but that purpose isn't to explain the project to HMRC. They don't want or need to know how it solves a problem for your customer. The tax man needs to know how you faced a problem and how you dealt with it. They call it an uncertainty. You had a problem and needed to use research and development to overcome it.

Getting this detail right changes the game. Your R&D tax claim becomes easy to follow and you can see the cash back in your business in as little as 6 to 8 weeks. This is one area where HMRC works relatively quickly.

GETTING THE TAX MAN TO UNDERSTAND WHAT YOU HAVE DONE

You will know your business inside out. The projects that you carry out will most likely fill the criteria for an eligible claim. But how do you get HMRC to understand this? The facts and figures are quite straightforward – but the explanation is where they make their decision. And not only this, but the finer details are always being updated. A successful claim a few years ago might not make the grade today.

But there are certain areas that come up time and time again. We see these on a regular basis. This is the list of the most common areas where businesses see their R&D tax claim rejected. Check them out to see how you can increase the chances of a successful claim -

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 life science business decides that it wants to make a larger version of an existing product designed to sit inside the body for patients of different sizes. As they look at making it longer, then they find that it means this means changes need to be made in relation to the body around the device. 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?

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 life sciences business decides that they want to buy a new piece of machinery to improve speed and productivity in manufacturing their products, 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 life science business decides that they want to change the way they package a pharmaceutical product to save costs, then just trying out the available options until they find one that they (and their customers) like, 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

If you spend some of your valuable time on an R&D tax claim, then you want to know that you are getting the most back from this. Any life science business is pressured by time, often due to the testing and legislation relating to their products. Time is always a factor. So, you want to ensure that the time you invest in this brings in the most money it can.

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

THERE'S MORE TO A CLAIM THAN THE COST OF MATERIALS

When assessing the spend on R&D in a life science business, it can be easy to focus singularly on the materials used, as these are an obvious cost. But staffing is a major spend for any business in this sector.

In 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 many life science businesses, 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.

UNDERSTAND HOW GRANTS CAN AFFECT YOUR CLAIM

Life science is an industry where the government sees an opportunity for UK businesses to thrive on the global stage. As part of this, there are many incentives and grants available. These are treated in different ways by HMRC. You should keep records of any grants received and so these 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 understands this area and can guide you. Get in touch with us to find out more.

GET AHEAD OF THE GAME

Your research and development functions may be an integral part of your business. But are the specific problems faced and the path to overcome them noted down as time goes by? If they were, the R&D tax claim explanation would be simple to complete. Making notes as you go on will help you to have a firm grasp on what parts of the business are eligible for a claim.

Otherwise we are just guesstimating what specific expenditure can be attached to R&D. Doing it this way will mean you miss out on parts of your claim and don't get the most from your time. Make sure you have a good record of the spend, and the uncertainties faced to submit something that is totally accurate and maximises your claim. We can look back at the last 2 tax years as well as the current one, so quality notes will transform your R&D tax claim.

KEEP UP TO DATE WITH 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 costs – not just materials
- Be aware of how grants can affect your claim
- Keep records as you go
- Regularly check HMRC website for updates

AVOIDING THE DREADED HMRC ENQUIRY

An HMRC enquiry isn't a fun for anyone. The tax man looks at claims and assesses whether they can be approved – or whether they need more investigation. An enquiry can take up valuable time as well as causing stress. You just don't want it. It will mean that you have to answer all manner of questions about your business and will leave future claims under greater scrutiny.

With this in mind, there are some simple steps to follow in order to make sure your life science R&D tax claim avoids the dreaded enquiry. Here are our tips, from experience –

SIMPLICITY IS THE KEY

Filling your claim with technical language and tonnes of data won't beat the tax man into submission. It will just prompt them to ask questions in clarification as to what has been said. Don't put yourself in that position. Simple and clear explanations will deliver you to a successful claim and away from an investigation.

They want to know what happened – and they want to know that it was an eligible claim. If you don't clearly state that in terms they understand then you have no hope of being successful. Think about the comments you make and the language you use to steer clear of an enquiry. We find the best R&D submissions are written by the MD in conjunction with someone who is involved in the processes.

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 HMRC. It can be a genuine mistake, so get an expert to check over the figures.

Inflating figures to get a bit more mileage out of a claim just won't get past the eye of the tax man. They see claims from life science businesses every day so know what to look for.

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 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 –

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

WHAT TO DO IF AN ENQUIRY DOES COME YOUR WAY

Despite your best efforts, there may be the odd occasion when HMRC does want to know more about your R&D tax claim for your life science business. This might feel like a pressure situation, but it doesn't have to be. Staying in control is simpler if you know how. 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 tax is 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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