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**BRIGHT IDEAS,
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MANUFACTURING/ ENGINEERING

INTRODUCTION

R&D is something that many manufacturing or engineering companies carry out on a regular basis. Making new products, developing existing ones or changing processes keeps companies in these industries up with the competition. There are many areas of engineering and manufacturing businesses that need constant progress to remain competitive. Research and development is the way that this happens.

At Lumo, we help engineering and manufacturing businesses to make R&D tax claims. The advice out there isn't focused on the people that it matters to – business owners. So, we have pulled all of our expertise together to make it easy to understand

R&D tax credits for manufacturing and engineering businesses. If you have any questions, then speaking to one of our knowledgeable team is the best place to start. Get in touch with us for advice or just a chat about R&D.



This guide aims to help you understand 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 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.

There are a number of companies that will offer to submit an R&D tax claim for your manufacturing or engineering business. Speak to someone with a 100% track record on this.

Collating the figures from your business in relation to research and development is one thing. But an R&D tax claim is about so much more than this. You need to explain to the tax man the technical side of your projects and how they qualify. You need to know what parts of your operation are actually eligible.

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

Your research and development will most likely be a technical project with elements that are not easily understood by the layman. But HMRC need to follow your claim to the letter to assess it and

pay out. We 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**' ...

You can send a quick claim and get all of this over and done with. But getting the most from a claim means taking a little more time to include everything. Maximising a claim is all about knowing the areas you can include. It isn't often that HMRC give money back, so get as much cash back into your business as you can.

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

An enquiry from HMRC can be a worrying time. It adds stress to your business that you can most certainly do without. We have been helping manufacturing and engineering businesses to submit successful claims and avoid an enquiry from the tax man. We have built up a list of common problems to help you work smart.

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

If you unfortunately end up with an investigation, then there are certain steps you can take to make it run as smoothly as possible. Don't give up – deal with an HMRC enquiry with confidence and professionalism with our handy tips.

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

HOW TO SUBMIT A SUCCESSFUL CLAIM

Looking at HMRC's website can leave you with a headache at the best of times. If you run a busy manufacturing or engineering business, then you probably think you don't have time to submit an R&D tax claim. It might look like it isn't worth your time. Well, you would be wrong. The average size of claim that we at Lumo submit on behalf of our clients is over £35,000. There is a wealth of information on HMRC's website, but it is clearly written by a tax expert. That doesn't help you to formulate a plan to submit a claim and get much-welcomed cash back into your business. For a simpler way to understand the regulations around R&D tax credits for your engineering or manufacturing business, we have compiled this guide to cut out the jargon and make it easy for you. All of the items in this guide are relevant, actionable and cut to the chase.

The details needed by HMRC to assess your claim must be presented in simple terms. They need to know what you have done to decide whether it is eligible for a return of cash to your business. There are two elements to an R&D tax credit claim –

1. The numbers – what you have spent on R&D
2. The explanation – what you actually did

In many ways, the numbers are the easy part. Most accountants will be able to pull out a set of figures and have them ready to send to the tax man. There are 2.7 million people directly employed in the manufacturing industry alone, so this is a large part of the UK economy. Sustaining and growing the manufacturing and engineering industries is an important target for the government. This means they are ready to support UK businesses in their research and development. In order to receive this cash you must do more than send in the figures. They need to know what you have done – and how it advances the knowledge of the UK manufacturing and engineering industry.

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

You will have a wealth of technical data relating to every aspect of your operation. This is what happens with manufacturing and engineering businesses. But this data doesn't hold much sway with the tax man. They need to know what you have done in simple terms. They won't be blinded by science, but will want to know the advances you made with your R&D.

The activities that they are interested in are around the uncertainties you faced and the action you took to overcome them. Even a failed R&D project can be used as a successful claim, so don't think that you miss out just because of this. A claim sent through with all they want to hear can be back in your business in as little as 6 to 8 weeks, so there is a huge incentive to get this right first time.

HMRC ONLY OFFER GUIDELINES

There isn't much in the way of support and help from HMRC in terms of submitting a claim. They don't talk you through the process step by step. Their website is filled with guidance, but you want something that is bespoke to your manufacturing or engineering business.

Knowing the R&D tax system inside out will help you to submit a claim that is accepted and gets the cash back in your business as quickly as possible. Lumo have been helping people with this for years and have a 100% success rate. If you need a helping hand, then get in touch and we will help you to make the most of the R&D happening in your business.

GETTING THE TAX MAN TO UNDERSTAND WHAT YOU HAVE DONE

You will know your business like the back of your hand. But sometimes explaining it to someone else isn't as easy as knowing it yourself. This is where you need to be with an R&D tax claim. Explaining the way you have gone about your business over the course of the last year should be the way you go about this.

There are different areas to R&D tax and these can change over the course of time as the government and HMRC change the way they look at the incentive. A claim made successfully recently might not see the same success today. Aside from reading HMRC guidance to be up to date with every little development, you can submit a claim successfully by knowing the common pitfalls that cause an issue –

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 have encountered and overcome uncertainties to be counted as an eligible claim.

As an example, if a manufacturing 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.

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 –

An engineering 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.

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 manufacturing or engineering business decides that they want to utilise a new form of storage for the finished products and go ahead and buy one, then this doesn't fulfil the criteria to be defined as R&D. But if they go out there and research the alternatives, looking at factors such as the strength of the storage, the number of items they can get on the shelves and what this means for their production line, then this is an eligible claim.

MAXIMISING EVERY CLAIM

Getting the most from an R&D claim is all about submitting everything that is eligible. Too many businesses don't know the rules and miss out on vital cash when it comes to their claim. If you need to go back to HMRC a second time with amendments or additions, then you will be more likely to be scrutinised. If you get this right first time it can speed up the process, get you more money and reduce the chances of being investigated. That's a win all round!

We have seen too many underclaimed submissions in our time. This needs stop for the good of UK business. Here are some of the areas we have uncovered when manufacturing or engineering businesses submit to HMRC –

GET AHEAD OF THE GAME

So much can happen over the course of a year. Trying to remember all of this at the end of that period means that you don't have accurate figures and can potentially lose out on a large proportion of your claim.

The best practice is to keep a record of the projects with notes and figures as the year progresses. Even if some of these projects don't wind up being eligible for a claim, you will have all the information you need for the ones that do. Remember, that even failed projects can be eligible for R&D tax relief. You can look back at the last 2 tax years as well as the current one, so there is a lot to remember. Imagine how easy that would be if you had quality notes relating to what you did, what the problems were and how you overcame them. That is exactly what the tax man is looking for.

IT IS ABOUT MORE THAN THE MATERIALS

Don't just think about the materials used, which can be an easy trap to fall into for manufacturing or engineering companies. Staffing costs are an integral part of a maximised R&D claim for these industries. You might look at the materials and think that this is the core of your claim, but for manufacturing and engineering companies, the labour costs are a huge part of their cost base. And remember that staffing costs are about much more than salary.

There are other parts that are a cost to your business as part of your R&D function, including –

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

Getting the most from an R&D tax claim means looking at all areas of related expenditure. Don't miss out on these vital pounds.

KEEP UP TO DATE WITH HMRC WEBSITE

HMRC is constantly updating what they consider to be research and development – and what they don't. If you really want to make sure that the submission for your manufacturing or engineering business is going to hit the right spots with the tax man, then you need to stay in touch with the changing regulations.

If you have any questions about this then get in touch with us. This is our day job, so we look at R&D tax regulation all day long. We are here to guide you through the process and ensure that you get the most from a claim.

UNDERSTAND HOW GRANTS CAN AFFECT YOUR CLAIM

Grants, subsidies and incentives are a great way to support the growth in a business. However, 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 so they can be considered 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.

Simply put, you should always remember to –

- Keep records as you go
- Remember to record more than the cost for materials
- Regularly check HMRC website for updates
- Make detailed notes about any grants you receive

AVOIDING THE DREADED HMRC ENQUIRY

HMRC enquiry. Just the words bring fear to the small business owner. If you end up with notice that your R&D tax claim is the subject to an enquiry, then it can feel like you are instantly under pressure. They will ask a lot of questions and it can feel like you must justify everything you have done over the last year or longer.

We have helped people faced with an enquiry and there are common reasons that come up time and time again. If you want to avoid an enquiry on the R&D tax claim for your engineering or manufacturing business, then you should look at the following areas –

SIMPLICITY IS THE KEY

For an engineering and manufacturing business, there will be a large degree of technical information relating to what you do. An R&D tax claim can be made for –

- new processes or handling techniques
- designing, testing and trials for prototypes (successful or unsuccessful)
- scaling up the production processes when a business grows and needs to increase capacity
- Using new material either as a cost-saving exercise or to meet changes in legislation
- Putting together new and old systems or pieces of equipment so they work in harmony

And these need to be explained in a way that HMRC can look at, assess and decide on. Filling a form with unnecessary information or high-level language will just prompt them to contact you for the details in a format they can use. 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

Guessing at the numbers can be avoided by keeping records as the year goes by. But if you do find that you haven't made copious notes, you should be careful with the figures. An overestimate for your manufacturing and engineering business might sound alarm bells with HMRC and start an enquiry.

Never be tempted to overestimate – they see claims made all day, every day so know what they are looking for. Accuracy is crucial here to avoid the dreaded enquiry.

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

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 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.

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 for your manufacturing or engineering business, then don't back down. Stick to your guns and argue your case in a cool, calm and collected manner.

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 THINK YOU ARE ON YOUR OWN

There is a lot of professional support out there if you find yourself with an HMRC enquiry and you don't quite know what to do. An expert in 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
- Fight your corner
- Double check your application
- Seek professional help



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