TECH/SOFTWARE DEVELOPMENT

BRIGHT IDEAS, BRILLIANT FUTURES

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TECH/SOFTWARE DEVELOPMENT

INTRODUCTION

Software development and tech are a constantly changing environment. Coming up with new ideas and solutions for your clients is part and parcel of the everyday in your software or tech business. And you have probably heard about R&D tax credits. To some, it seems nigh on impossible to get R&D tax credits for software development or work on tech. But the truth is that there are many different areas of these industries that are eligible for R&D tax credits. All you need to know is what is part of a valid claim.

That's why we have put this guide together. It helps tech and software companies to understand R&D tax credits, focusing on 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

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.

An R&D tax claim for your software or tech company is a case of following a process – one that we at Lumo have been refining for years.

Getting the numbers right is one thing. Any accountant can pull together a good idea of the parts of your business that might be eligible for R&D tax credits. But that is only half of the process. You need to know what the tax man is looking for and be able to present it in the right format.

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

Your software or tech business will have many technical elements. You need to know how to present this in a way that the tax man will understand. We take all of the guidance on HMRC website and make it easy for you to explain yourself in the right way.

See 'G**etting the tax man to understand what you have don**e' …

The last thing you want is to spend a lot of time on a claim to find you missed out vital elements that could have brought you income. This part of the guide shows you how to make sure you have a claim that is as full as possible.

See '**Maximising every claim**' …

You don't want to face an enquiry from HMRC. It causes stress and can take up a lot of your time. Check out this section to understand the easy ways to make sure you know the pitfalls when submitting an R&D tax claim – and how to avoid them.

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

If you are unfortunate enough to face an HMRC enquiry, then you will want to know how to react. This section shows you how to stay calm and deal with it. There's no need to panic if you read this and know what they are looking for.

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

HOW TO SUBMIT A SUCCESSFUL CLAIM

There's no doubting that submitting an R&D tax claim can be a daunting prospect. There is a lot of guidance on HMRC's website for businesses in general but not much of it is specifically aimed at tech or software development companies. You may be forgiven for looking at the information overload and walking away. But with the average claim we at Lumo secure for our clients being over £35,000, we promise this is worth the effort. Tech and software businesses thrive on dealing with complicated issues in their own field, but understanding tax is our forte. We have brought all of our expertise into simple, uncomplicated information that is relevant, actionable and straight to the point. If you want to understand R&D tax, then you are in the right place.

Your tech or software development business may be complex and technical but HMRC want to know what you have done in simple terms. Think about how you might explain what you do to your granny and you'll be heading along the right lines.

The facts and figures are one thing, but they need to work hand in hand with the explanation about what you have actually done. It needs to fulfil the criteria HMRC have developed regarding research and development. With some major applications for tech and software companies, the main point the tax man is looking for revolves around –

IT IS NOT WHAT IT DOES, BUT HOW IT DOES IT.

If your new development solves a problem that is already out there, then that is fine – you can still have a successful R&D tax claim. The way you have gone about solving the problem is the key area here. We will look at this in more detail in this guide.

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 may have a lot of technical information regarding your software or tech products that you use with customers. Sales talk is great when trying to seal a deal with a client but does nothing for your relationship with the tax man. They need to know exactly what it is you have done.

This needs to be put in the following format - 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 for your tech or software development business 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!

HMRC ONLY OFFER GUIDELINES

There are no specifics on how to submit a claim as a software or tech business, just a set of generic guidelines on HMRC website. And don't think that you can call them for someone to walk you through the process step by step. They won't hold your hand during the process – 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 for your software or tech business 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

An R&D tax claim for your software or tech business is a case of completing two forms for HMRC –

1. One that shows the costs associated with your R&D
2. One that explains what you did

There are different criteria, and these are changing all the time as HMRC refine what they mean by R&D. This means that a claim that might have been successful in the past will fail if presented in the same way today.

And the areas of tech and software development are often affected heavily by these changes so you need to know what is what here. Here is our guide to making sure you don't fall foul of these common areas of concern –

WHAT IS A TECHNOLOGICAL UNCERTAINTY?

You don't need to develop something that has never been considered before to have an eligible R&D tax claim. Think technological advancement rather than blue sky innovation. Even if there is a similar product on the market, if the development of this isn't common knowledge and you had to solve the problems from scratch then you have a valid claim.

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 software company is contacted by a client to build a CRM system. Building one on the same way as others have been built in the past is clearly not a case for a valid R&D tax claim. But building something new that operates in a fundamentally unique way would be eligible for an R&D tax claim. This was an R&D project that dealt with technological uncertainty.

ARE PROCESSES PART OF R&D?

Processes are not always seen as part of software development or tech solutions, but they can often be. It is all about looking at the uncertainties surrounding the process and how these were overcome by your business.

As an example, if you develop an app that improves productivity in your own business and simply start using it, then this isn't going to be seen as R&D by the tax man. But if this new app needed to integrate with existing software and this took time and innovation to make happen, then this could very well be part of a claim. There are some grey areas here so it is best to speak to our expert team and we will assess your potential for a claim.

IT CAN BE ABOUT ADAPTING TO THE CHANGES OF OTHERS

If your software or tech product integrates with other platforms, such as Facebook or SAP for example, then making changes due to the developments that they make are eligible for R&D tax credits, as long as you faced uncertainty and overcame challenges. If the way to adapt was outlined by the 3rd party, then this doesn't qualify.

MAXIMISING EVERY CLAIM

If you are spending some of your valuable time on collating and submitting an R&D tax claim means you are not spending it on another part of your business. So, it needs to be worthwhile. The best way to get the most value from this exercise is to maximise your claim. Far too many businesses submit a claim and find that they have missed out significant parts that could have seen them with more money back into the business. Don't fall into that trap.

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

STAFFING COSTS ARE ABOUT MUCH MORE THAN SALARY

When calculating staffing costs for your software development or tech business, 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.

DECIDE WHO IS MAKING THE CLAIM

Much of your work will be developing new software or tech products for your clients. You should have the conversation early on in the process as to who is making the claim for R&D tax credits. You can't both make a claim for the same project. If you make the claim and receive the cash, then you can use this to reduce your quote. Talk to each other and determine what will happen at the end of the project. It is best to get this in writing too.

GET AHEAD OF THE GAME

So much will happen over the course of a year that you can easily forget the small details of what problems you faced and how you overcame them. But this is the most relevant part of an R&D tax claim as far as the tax man is concerned.

Keep records from the start of the year of all the projects you have undertaken, and all of the issues faced when producing solutions. This will make your R&D tax claim easy to complete at the relevant time. Missing information will make your case less strong and can lead to you missing out on imputing costs to the business. As we can look back over the last 2 tax years as well as the current one, this makes record keeping a crucial element to your claim.

KEEP UP TO DATE WITH HMRC WEBSITE

There is good information on HMRC website. It shows any changes to the definition of research and development in the eyes of the tax man. If you are going to submit your own claim then looking at HMRC website on a regular basis will be an important part of your preparation.

Alternatively, you can work with a company like Lumo who stay on top of all changes as a matter of course. As we are experts in constant contact with HMRC, we 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
- Decide who is making the claim
- Keep records as you go
- Regularly check HMRC website for updates

AVOIDING THE DREADED HMRC ENQUIRY

An enquiry into an R&D tax claim for your tech or software development business can feel like you are under serious investigation. They will ask a lot of questions about your claim and your business. It can take up a lot of your time and put you under pressure. You don't want that.

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 –

SIMPLICITY IS THE KEY

HMRC may baffle you with technical language and jargon on their website but don't think you can do the same in return. Put simply, if they don't understand what you are saying then they will come back with questions – lots of them.

The form is defined for you to submit a claim that they can easily understand and assess. The more technical the language and data you use, the more chance you have of a call from them asking to speak to you about your claim. 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

What you may consider to be classed as research and development isn't really relevant when submitting a claim. It is what HMRC consider that will determine whether you will receive your money or not. The algorithms, architecture and developmental challenges of your software or tech project are what counts. This is more important than the end function of what you have produced.

Not all software or tech developments are eligible – they actually need to advance the knowledge and understanding of the industry to be part of a valid claim.

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 the innovation 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.

GET THE NUMBERS RIGHT

The explanation about what you have done is vitally important, so it can be tempting to take your eye off the ball with the figures. Don't do this. 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 HMRC about your claim.

In a nutshell, you should always remember to –

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

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 about your R&D claim for your tech or software business, 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 –

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.

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 THINK YOU ARE ON YOUR OWN

There is a lot of professional support out there if you find yourself involved in a HMRC enquiry 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 –

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

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