

# Well, what a relief!

**Christina Nawrocki, partner at Wellers, the small business accountants to SMEs, discusses R&D tax credits and how those working in the fabricating industry can benefit from them**

The UK tax system is very complex, so it's no surprise that many businesses aren't aware of all the tax reliefs available to them.

There are many different types of tax relief which can be useful in reducing tax bills for businesses, and one very relevant to fabricators is the research and development (R&D) tax credit, which is especially useful for those industries involving science, technology, engineering, and maths.

## How does R&D tax credit work?

A business is eligible to apply for R&D tax credit if it is developing new technologies or processes, something which is inevitable within manufacturing sectors. Unlike other forms of tax relief, loss-making businesses can still qualify for R&D tax credits, although the terms are slightly different:

When loss making – your business is paid cash in the form of a tax credit

When profit making – tax relief is given as a 186% total deduction applied to qualifying costs of yearly profit. This equates to an additional 86% reduction to the normal 100% which results in a smaller corporation tax bill.

Of course, HMRC isn't going to give this credit out to just anyone. To qualify, you must prove that your business has either:

- Developed new software
- Developed internal processes that reduce costs and improve production efficiency
- Used existing technologies in a new, or unique way
- Integrated two or more existing technologies in a way they haven't been previously
- Made advances in science and/or technology
- Manufactured goods

The likelihood is that working in fabrication, you may very well qualify for R&D tax relief if you are working on innovative areas in the sector. However, you should speak to a tax advisor who can offer support when submitting a claim to ensure it is done correctly and isn't fraudulent.

## Why is R&D relief so important?

The main benefit of R&D tax credit is the reduction in tax liabilities. The UK currently has the highest tax levels since the 1940s, so the less you can legally avoid paying the more capital will be left over to re-invest into your business to help fund growth. This not only helps your enterprise but is potentially beneficial to the UK economy.

Firstly, R&D projects open new potential employment opportunities as fostering innovation is likely to require input from many highly skilled and talented employees. Lack of funding is one reason why R&D projects can stall. However, if businesses can reinvest after claiming the R&D tax credit, more projects are likely to go ahead.

Secondly, R&D projects are key in developing solutions for global challenges, like acquiring new sources of



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renewable energy to combat climate change or finding more sustainable manufacturing processes. Without the use of R&D tax relief, many projects set to tackle the toughest global issues simply wouldn't happen, putting the country in a tricky position unable to respond to challenges. Therefore, encouraging businesses to utilise R&D tax credit is imperative for the future of the country.

## But it is complicated...

R&D tax reliefs are a useful tool for businesses to significantly reduce their tax liabilities. However, the process and legislation as to eligibility can be complex, so it is best to consult a tax professional to ensure you don't submit a fraudulent claim. Doing so could not only mean a fine from HMRC, but it could trigger a full scale tax investigation which is a long and costly process to manage. □

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