



Innovation pays...

**Transforming
Manufacturing
Businesses with
R&D Tax Credits**

White Paper - Feb 2020

Manufacturing – An Industry Overview

For centuries the UK has been a hotbed of invention with everything from the telephone and commercial airliner to the first vaccine and iron bridge all being conceived on these islands.

That reputation for innovation continues to this day with Tim Berners-Lee transforming how we interact and do business with each other with the development of the internet.

Born out of years of research and development, the internet is arguably one of man's best-ever inventions and it has impacted on every industry, including manufacturing.

In 2018 manufacturing in the UK accounted for: 8% of jobs, 2.7 million in total, £191 billion of economic output, or 10% of the UK total, 42% of UK exports, worth £275 billion and 65% (£16 billion) of UK research and development spending.

Manufacturing in the UK has faced a tough operating landscape for a number of years but as a result of this, support for the sector has become a priority for the Government with practical R&D help and indeed R&D Tax Credits.

However, at the start of this new decade there have been some green shoots of optimism for the industry.

In January 2020, the HIS Markit/CIPS UK Manufacturing PMI was revised higher to 50 from a previous estimate of 49.8. The latest revision brings the PMI to its strongest reading since last April which indicates a stabilising of the industry, following eight months of contraction.

Reasons for this include further clarity around Brexit, the General Election taking place and improved future sales orders. With further reference to the General Election, the Conservative manifesto, should it be realised, will see a notable change in R&D Tax Credits. The R&D Tax Credit rate will increase from 12% to 13% for large companies to boost key sectors.

It's good news for SMEs too with the Tory manifesto also making a welcome pledge to review the definition of research and development so areas such as cloud computing and data are incentivised. These areas don't necessarily scream R&D activity

but in many ways the associated costs with them can act as a barrier to innovation.

Supporting Research and Development is a government priority as it is a key driver of productivity growth. R&D investment enables companies to convert research into practical innovations.

This ensures that companies can continue to make use of the latest advancements in technology and benefit from the ensuing productivity gains.

Although the manufacturing industry accounts for the majority of R&D expenditure in the UK (65% or £16.3bn in 2018), this is down from 84% in 1985.

Counteracting the effects of this trend has been one of the main focuses of UK industrial policy in recent years. For example, successive governments have supported the development of the Catapult Centre Programme.

These organisations and campuses seek to connect businesses, academics and industrial research so that technological advances can be more easily converted into commercial products or processes.

And ahead of March's first post-Brexit budget there have been widespread calls on the government to develop this programme into Catapult Quarters. These would encourage industry to collaborate regionally on the key challenges that face our country - like clean growth, healthy ageing, the future of mobility and AI - with targeted and practical support.

The proportion of R&D accounted for by manufacturing has declined in recent years.

In 1985, manufacturing R&D investment was 84% of total R&D, compared to the current total of 69%. The proportion of R&D spending accounted for by the service industries has seen a corresponding rise over the same period, from 11% to 32%.

But with the industry on the cusp of a 'fourth industrial revolution' as it marches towards unprecedented levels of integrated automation, now is the time when an investment in R&D could pay dividends in future-proofing your company.

Investments in R&D are seen as important ways of building for the

decade ahead with innovations in new equipment, products and processes along with investment in people and skills.

“Companies are increasingly differentiated by the technology they can offer their customers and how they can use knowledge to maximise it. Investing in R&D is the only way that manufacturers will be able to maintain their edge in a competitive environment. Research carried out by MTA in 2018 showed not only that manufacturing has a much bigger impact on the UK economy than most people realise – touching up to 23% of the economy - but that much of that impact is accounted for away from production, in areas like Research and IP maximisation. Successive Governments have put in place, and extended, incentives to do R&D in the UK, but their take up should be higher.”

James Selka, CEO, Manufacturing Technologies Association

Rewarding Innovation: What are R&D Tax Credits?

The government has developed an incentive initiative that rewards companies who invest in R&D.

R&D Tax Credits are a form of Corporation Tax relief designed to promote and encourage increased spending on R&D projects. This leads to a greater investment in innovation, and in turn ensures that the UK manufacturing industry continues to thrive.

R&D Tax Credits are the most generous and under-claimed form of Corporation Tax relief in the UK. It can be claimed by a range of companies; from SMEs to larger organisations, that conduct research or seek to promote development and advancement in their field.

Claiming is not restricted to white-coat laboratory activity or projects that have been successful. It is applicable to all

research and development activity that relates to your company's trade with the intention of advancing technology or science, with the exception of social sciences and theoretical fields.

The definition of R&D varies from country to country. Many countries adopt the internationally recognised "Frascati method" for collecting and reporting on research and experimental development. This is a great source of information around R&D.

However for HMRC's R&D Tax Credit purposes, the BEIS guidelines (Department for Business, Energy & Industrial Strategy) advise that 'The activities which directly contribute to achieving this advance through the resolution of scientific or technological uncertainty are R&D'

To qualify for R&D relief, your company's application must explain how the project:

- looked for an advance in science and technology
- had to overcome uncertainty
- tried to overcome this uncertainty
- couldn't be easily worked out by a professional in the field

(Source: Gov.uk, 2018)

Successful claimants may be able to recoup substantial development costs by way of cash or credit for every year in which qualifying R&D activities have occurred.

UK R&D

As the UK comes out of the European Union, the government is free to set its own level of support for R&D without falling foul of the EU's determination to create a level playing field across Europe.

The UK government has made its intention of investing in innovation clear with plans to raise R&D investment to 2.4% of GDP by 2027.

And with the UK now reaching out to new trade partners around the globe, there has never been a more vital time for companies to invest in R&D.

The overall level of R&D has been increasing year on year with the total number of claims over the latest two-year filing period looking set to go beyond 52,000. Encouragingly the level of first-time claimants has risen by around 13%.

While these statistics show a period of growth it should be pointed out that these figures account for just 1% of all companies registered in the UK. There is an overwhelming number of innovative companies who are not submitting claims and potentially missing out on tens of thousands of pounds in R&D Tax Credits.

Since its inception, The Momentum Group has helped its clients identify over £135+ million in eligible R&D expenditure.

We believe the key reasons why so few companies make claims are: a lack of awareness of the research and development incentive's existence and gaps in understanding of what qualifies as R&D activity.

For example, many believe that R&D and innovation is only carried out by companies in white coat industries when our experience is that most limited companies in Northern Ireland are carrying out this activity every day. They just view it as part of their every day operations.

The message is clear, innovation breeds success. For every £1 spent on R&D an additional £2.55 is pumped back into the economy.

HMRC Statistics: How has the manufacturing industry benefitted?

Latest HMRC statistics show that the Manufacturing, Professional, Scientific and Technical, and Information and Communication sectors continued to have the greatest volume of R&D Tax Credit claims, making up a total of 68% of claims and 73% of the total amount claimed for 2017-18.

In terms of manufacturing, this R&D-intensive sector is still thriving despite a decline in its overall contribution to the UK's GDP. There has been a 31% year-on-year increase in total claims and overall claim values for 2017-18's partial data indicates this year will comfortably surpass full-year values from 2016-17.

New figures in the use of the R&D tax credit initiative now comparatively show, Scottish companies claimed £175m, Welsh companies £95m, English companies £3.9bn and N. Ireland businesses claiming £75m.

"While HMRC statistics show many industries in the UK are waking up to the benefits of R&D Tax Credits, the potential is far greater. In our experience, there are still so many manufacturing businesses that are either not aware of R&D Tax Credits, incorrectly think they do not qualify or feel they lack the necessary experience to submit a claim. In fact, many companies are not claiming their full legitimate entitlement."

**Tom Verner,
The Momentum Group**

Finance Bill 2019-20: R&D Tax Credits lockdown

In late 2018, the Government announced plans for a cap on the amount that a loss-making company can receive in R&D Tax Credits. This level of rigour was re-introduced to the process to prevent the misuse of R&D Tax Credits and to ensure companies are provided with professional and strategic advice.

Successfully identifying projects that qualify for R&D tax relief requires considerable technical knowledge in improving product processes and systems, as well as an in-depth understanding of the legislation. In an unregulated area, involving complex financial review, working with an expert team is vital.

Manufacturing R&D Case Studies



“As an innovative company, Cimpina are always trying to push the boundaries in the projects we undertake. In 2015, a business associate of ours recommended that we look into R&D Tax Credits which we hadn’t heard of before. As this was an area where even our accountants were unfamiliar with, we engaged with a local specialist R&D Tax Credit firm to review our business. Unbeknown to us, quite a proportion of the projects we are involved in actually qualified. These significant rebates year-on-year allows Cimpina to further develop our processes and take a risk in attempting new projects that have a level of uncertainty. In a competitive industry, where we aim to be the best at what we do, R&D Tax Credits have allowed us to expand our services, remain competitive and maintain and grow our staff.”

Paul Hamilton,
Business Development Manager
Cimpina



“Overall 2017 R&D Tax Credit claims in the industry reduced by around 14% compared to 2016. This is evidence of the difficulties currently being faced by UK manufacturers. In a manufacturing business, every action is designed around R&D activity creating new products and quicker, stronger and better outputs. The Government’s R&D Tax Credit scheme is there to support that process and more companies should be using this opportunity to improve their business and their processes.”

Stephen Kelly,
Chief Executive
Manufacturing NI

Analysis of the latest HMRC figures show that Northern Ireland businesses accounted for £75m of all R&D tax credits claimed across the UK for the year 2017-2018. However, this accounts for just 2.7% of the total number of claims on a national level and a mere 1.7% of the total monetary benefit claimed. Of the 1,310 Northern Ireland claims, 1,100 were claimed under the SME R&D scheme with the remainder claimed under schemes for large companies (RDEC). The average amount claimed by companies in Northern Ireland was £57,250, with the average for SMEs being £41,000. For SMEs, this represents an 11% increase in the number of claims and a 13% increase in the value of claims.



“In the waste and recycling sector we are continually focusing on safety and are actively looking for ways to reduce the risks to workers on waste collection vehicles. Research and development has played a key function in giving us clear foresight about future technological uncertainty that needs to be resolved. I believe research and development can be a catalyst for speeding up product and process growth and this has helped Macpac Refuse Bodies introduce innovative designs to produce better machinery into the market, bolstering our side loading waste collection vehicle range. Focusing on research and development has helped Macpac Refuse Bodies with its competitive edge and seeing the benefits first hand; therefore, we’ve been able to recruit a specialised R&D member to further develop our products.”

Drew Stewart,
Managing Director
Macpac Refuse Bodies

About The Momentum Group

Founded in 2009, Momentum is one of the longest established R&D Tax Credit advisory firms in the UK. It is also the only R&D tax practice that focuses on providing advice on long-term R&D strategies, offering a complimentary annual review to its client, enabling them to assess current and forward-plan future research and development projects.

Momentum has helped hundreds of highly competitive companies, from manufacturing to construction, food & drink to technology, to claim this UK government incentive. The team includes accountants, business, commercial and ex-HMRC technical experts to ensure every claim gets the necessary expert scrutiny and is thoroughly investigated. In addition, the Momentum Group recently announced a partnership with Manufacturing Northern Ireland, becoming its exclusive R&D Tax Credit partner.

Take the next step

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