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Construction Tax Rebate!

R&D tax relief for the construction sector

A lack of awareness about what counts as Research & Development in construction means companies are missing out on millions of pounds in tax rebates.

The R&D Tax Credit Scheme is a Government incentive designed to encourage innovation in the UK industries, with claims via the scheme totalling nearly £2.5 billion last year. However, out of an industry of 290,000 businesses, only 480 construction companies made a claim via the scheme in 2014-15.

Sustainability, thermal performance, sound insulation, stability and efficiency, etc. require from construction companies the engagement into R&D. The R&D tax relief worth up to 33% of the R&D spend can be claimed. It can be used by the company to reduce the corporation tax bill or company can claim it in the form of a cash lump sum as a reimbursement from HMRC due to an overpayment of tax.

What is the R&D tax relief?

The UK Government's R&D tax credit scheme is a financial incentive to encourage companies to invest more in research and development activities, with the aim of stimulating further growth in the UK economy. Under HMRC's rules, R&D can be the development of new or existing products and processes, or tackling technological uncertainty faced by either your company or your clients.

To R&D activities we can include:

- Development of new, advanced construction methods, materials, plant and designs to suit unusual environmental and site conditions.
- Revealing new, easier and more environment-friendly methods of work.
- Tackling obstacles by undertaking new solutions
- advancing engineering solutions through the development of new materials, the combinations of materials, or unusually shaped/scaled elements

How to identify R&D in construction and engineering?

The recent Farmer Review of construction asserts that the low level of claims made via the R&D Tax Credit Scheme is evidence of construction's lack of innovation. But after nearly three years of 100% success in making R&D Tax Credit claims for construction clients – including one medium-sized engineering company claiming £664,000 over the past three years – Invennt director Tim Fitch argues that construction is innovative, and the problem is actually one of perception of what R&D means.

"Unfortunately, most people think that "real R&D" is carried out in laboratories by people in white coats," says Tim Fitch.

"But whether you're overcoming specific ground conditions, adapting equipment, creating new processes or developing better, safer, or greener methods of construction, you are almost certainly undertaking R&D."

Even if innovation accounted for just 1% of UK construction's turnover – and Invennt's work with clients has shown it is typically several times this – then for an industry worth more than £145 billion per year, that is potentially over £1 billion in R&D Tax Credit claims that could be made by the construction industry every year.

Invennt director Tim Fitch says that calls in the Farmer Review for the industry – especially the housing sector – to invest more in innovative products and processes such as pre-manufactured and volumetric construction could be instantly realised if companies started claiming R&D Tax Credits for the work they are already doing. “Invennt’s work has shown that every day on projects up and down the country, innovative solutions are devised to overcome technical challenges,” says Tim Fitch. “If companies were to actually claim R&D Tax credits for the work they are already doing, this could unlock a huge wall of cash to further invest in the innovation that the Farmer Review calls for.”

In the construction sector R&D is happening very often it is only important to recognise it.

There are R&D tax specialists who identify R&D and prepare the claim. Mostly they operate on the result based basis, so there is no risk and no upfront cost for a construction company. R&D tax claims can be backdated by two years from the date the expenditure incurred. R&D tax credits can significantly reduce the corporation tax liability.

The key criteria for R&D tax relief apply if there is a use of new materials, tools, or technologies which are an advancement in the industry.

Areas which indicate that R&D may be occurring include:

- Are there specialist engineers on the project?
- Are there stage payments due in part to having to overcome technical/materials milestones?
- Do the contracts contain extensive indemnity and retention clauses?
- Is prototyping involved?
- Are materials being developed which are cheaper, greener, or more reliable; or new combustive or fire retardant materials?
- Is there development of new materials, tools, or evaluation of existing materials/technology, combinations and adaptations of existing materials and products, or binding methods or coatings which haven’t been used in the market before?
- Are there new production techniques, including new modular off-site fabrication

methods and which make the erection of buildings more efficient and accurate?

- Have there been advances in software to resolve challenges?

Why there is a limited take up of R&D tax reliefs in the construction sector?

Main reason is the misunderstanding what is R&D activity. It is more obvious for sectors like chemicals, pharmacy, science etc. Due to lack of understanding many companies do not realise that the their expenditure might qualify. R&D is usually present in the development of new and improved products, a bespoke piece of work, or in new and improved processes, and the eligible costs are often much higher than initially expected. When submitting a claim, it is also possible to take into account the overheads relating to R&D activities, such as heating, lighting and IT costs.

Other examples of qualifying expenditure might include investment in the development of new materials and tools, or in process improvements or new software.R&D tax credits were first introduced in 2000 as a means of encouraging greater R&D spending and innovation. Since then, the available tax incentives have become more generous and HMRC has expanded the way it interprets and applies the rules to provide greater stimulus for innovation in the economy.The tax savings on offer for companies that invest in R&D are generous.

The R&D tax relief scheme provides an incentive for qualifying expenditure by both SMEs (225% relief) and large companies (130% relief). Based on the tax rates for the year ending 31 March 2014, this means that for SMEs, can save up to 54p in corporation tax for every £1 spent on R&D that is iden-

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tified. For large companies every £1 spent can save up to 30p.Loss-making SMEs can also cash in their losses for a tax refund equivalent to approximately 25% of their qualifying R&D spend. The amount of tax relief for SMEs differs depending on your profitability.

How to claim R&D tax credits?

Construction companies wishing to make R&D Tax Credits claims can do so via one of two schemes, depending on their size:

- The Research and Development Expenditure Credits (RDEC)
- The Small or Medium-sized Enterprise (SME) Scheme

Under the RDEC scheme, larger construction companies can claim up to 8.8% of their expenditure classified as R&D back from the HMRC. While this may not sound like much, when all innovative activity in major engineering and construction is properly recorded as R&D, this can still amount to millions of pounds.

Companies claiming via SME scheme, meanwhile, can receive up to a third of all their R&D expenditure as money back from HMRC. To qualify as an SME, companies must have fewer than 500 employees and must either:

- Have an annual turnover of less than £100 million, or
- A balance sheet not exceeding £86 million

"There are 289,000 construction companies in the UK and of these only 260 are classed as large for the purposes of R&D tax credits," says Tim Fitch. "These large businesses are less than 20% of the turnover of the whole sector (£145 billion in 2015). SMEs, therefore, make up 99.99% of the construction industry by number and 80% by turnover.If SMEs properly claimed for the R&D Tax Credits they are owed, it could revolutionise the way the industry thinks about innovation".

Companies can only claim for R&D activity that has taken place in the previous two tax years. It means that for those construction businesses working to a January-December financial year, the deadline for claiming work done in 2014 is fast approaching.

Invennt has produced a Free R&D Tax Credits guide to help construction businesses make their claim. You can download it by going to invennt.com/rd-guide

(Source: Invent)

STEP BY STEP

1. ***Arrange** a specialist company to process your claim*
2. ***Review** your expenditures and assess the areas where R&D activities might have occurred*
3. ***Get the estimation** of total R&D tax relief based on your allowable expenditure*
4. ***Submit** the CT600 application form to HMRC*
5. ***Receive** the approval/disapproval of R&D tax credits*