



# Drinks Industry

**Research & Development (R&D) tax relief is often overlooked by the drinks industry. However if you are looking to make a product taste better or be more attractive to a customer, cash savings or tax credits can be available.**

What actually constitutes R&D is wide ranging, but includes the development or improvement of a product or process - there must be a technological advancement (i.e. something new or an appreciable improvement over what is currently available) and an attempt to resolve technological uncertainties (i.e. there must be difficulties and challenges for an experienced brewer, wine maker, cider maker or distributor). The project does not have to actually achieve its aims in order to qualify.

## Benefits

For small and medium sized businesses (SMEs) this takes the form of an additional tax deduction calculated as 130% of qualifying costs and provides an effective cash tax benefit of c25% for profitable companies. For loss making companies, a cash credit of up to 33.35% is available.

For larger companies (over 500 employees and either €100m turnover or €86m gross balance sheet) the benefit is reduced, but is recognised above the line, i.e. as an increase to operating profit. The effective cash tax benefit is 9.72% of the spend. For loss making companies, the 9.72% is available as a cash credit.

Capital spend on R&D (for example on new premises or equipment) should also not be overlooked as there is an immediate deduction available for capital R&D expenditure. This gives a significant cash-flow benefit when compared to other allowances where, at best, the relief is given over more than 10 years, and in many cases, not at all.

## Qualifying Costs

You can claim relief on costs that have been expensed through the Profit & Loss account and in certain circumstances you can also claim expenditure capitalised as intangible assets). The main areas of costs that can be claimed are:

- Staff costs (gross pay, employer's NI, employer's pension contributions and certain reimbursed expenses) of employees directly and actively involved in the R&D and also where undertaking certain supporting activities.
- Agency workers.
- Subcontractors/freelancers.
- Software license costs.
- Consumable items (including a proportion of heat, light and power).

## Understanding your Industry

The development of new products or processes often involves technological challenges and uncertainties and many breweries, vineyards and distilleries are claiming R&D tax relief. There are however some that are unaware that this valuable source of cash could be available.

Obviously each case has to be judged on its own facts, but we have set out below a few examples of activities that we have agreed to be R&D with HMRC.

- Creating drinks with different apple or grape varieties, or different hops or yeast
- New combinations of ingredients to get different flavours (deeper, lighter, sweet, dry, bitter etc.)
- Guest beers and specials (e.g. chocolate, Christmas)
- Reduce (or increase) sugar or alcohol content whilst maintaining colour and flavour
- Ensuring a specific texture or retention of head

- Looking to achieve a specific colour, bitterness or alcohol content
- Improvements in organoleptic properties, such as flavour, aftertaste and aroma
- Increasing shelf life

**However R&D is not limited to the products themselves, it can also be in the processes, such as:**

- Increasing efficiency or yield in the brewery or vineyard
- Determining the impacts of water hardness, mineral content and pH, or temperature and timing of the mashing, boiling, soaking and fermentation processes
- Development of software to aid the process.