



Research and Development (R&D) tax relief is often not thought of by food companies. However, many activities, such as recipe and process development, could qualify as R&D and lead to cash savings.

There are various factors that drive development within the food and drink industry, primarily consumer demand and allergies, but also legal and regulatory factors, such as the 'sugar tax' announced in the 2016 Budget. As such R&D activities can be found in many areas including product or process development, improvement of existing methods, and recipe modification whilst maintaining taste, texture and mouthfeel.

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).

Food Industry

Understanding your Industry

There is a spectrum of factors that can result in R&D being undertaken, as companies constantly strive to make products that meet the demands of consumers, supply chains, investors and regulators. Once a decision is made that change is necessary, then projects will take place that are likely to involve R&D activities. These include:

- New product development including reformulating recipes, experimentation with equipment, managing environmental factors such as temperature and humidity, plus cost of ingredients, water and power.
- Reformulating an existing product with different raw ingredients in order to improve nutritional properties such as low-fat, low-calorie, high-protein or no saturated fats, or eliminate allergens, preservatives, artificial colours, artificial sweeteners etc, whilst attempting not to modify stability, consistency, flavour, texture, form or shelf life.
- Working to increase the shelf-life of a product, reduce cost or increase productivity.

- Process change including upscaling laboratory or pilot trials to full scale trials on the production and packaging lines. This would include automation of processes through the introduction of robotic elements, the introduction of new machinery or the addition of a production or packaging stage.
- Fabrication of components, integration and assembly of large systems and equipment.
- Modifying equipment, food processing or other appliances to increase speed, efficiency, quality or adapt for new formulations.
- Temporary reformulation work, for example where there is a limited supply of a particular ingredient, after poor harvests or political unrest in a region.
- Transferral of existing technology or adaptation of new technologies from other industries for novel applications to improve processes or products.