



Research and Development (R&D) tax relief is often not thought of by retail businesses. However, many of the activities undertaken around both products and systems could qualify as R&D and lead to cash savings.

Many in the retail industry do not believe that they are undertaking R&D, but there are a wide range of areas in the retail sector where this relief is very relevant and consequently significant benefits are going unclaimed. 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 product developer or software engineer). 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 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).

Retail Industry

Understanding your Industry

It is not enough that a product is commercially innovative; it must go beyond this to seek an advance in science or technology. However there are many activities in a retail business that could qualify for R&D tax relief, in fact retail groups around the world are investing in innovation labs and development houses in order to improve in many of these areas. The key areas where R&D can be found are in product and systems development:

Product – the development of new, bespoke or appreciably improved products, including

- Innovative development using CAD tools.
- Development of second generation or improved versions.
- Designing, constructing, and testing prototypes.
- Integrating new materials to improve performance and processing.
- Increasing ease of operation, suitability or sustainability of products.

Systems – Advances in controls, sensors, networks, and other software technologies to improve quality and productivity, including:

- Warehousing and stock control.
- Supply chain management.
- Distribution and logistics.
- Marketing – customer targeting and profiling.
- Payment systems.
- E-Commerce platforms and mobile apps.