



Manufacturing Industry

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

There are many activities in a manufacturing business that could qualify for R&D tax relief, generally within four key areas:

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.
- Increasing ease of operation, suitability or sustainability of products.
- Integrating new materials to improve performance and processing.

Process – the development of new or appreciably improved processes to deliver substantial productivity, quality, or environmental benefits, including:

- Prototyping and 3D solid modelling.
- Development of computer models.
- Evaluating and determining the most efficient flow of material.
- Designing and evaluating process alternatives.
- Developing processes that would meet increasing regulatory requirements.
- Streamlining manufacturing processes through automation.

Machine – the development of new or appreciably improving manufacturing equipment to provide increased capability, capacity or environmental efficiency, including:

- Designing innovative equipment.
- Improvements in productivity, safety or energy efficiency.
- Tooling design and development.

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

- Development of extended enterprise functions, such as resource management, supply chain integration and distribution.
- Development of technologies that enable integrated and collaborative product and process development.

Research and Development (R&D) tax relief is often available in the manufacturing and engineering industry, especially where developing new or improved products or processes.

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 engineer). The project does not have to actually achieve its aims in order to qualify.

It should be remembered that the R&D does not necessarily need to be ground breaking, and if someone else has already achieved a result, work to get to the same stage can still qualify – if your technical team spent time improving processes or developing solutions to technical problems, performing feasibility assessment or trying to find solutions through an iterative process of trial and error, this is very likely 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.

