

Innovate To Accumulate

If you think R&D tax breaks don't apply to the waste and resource management sectors, **Aubrey Calderwood**, director of Capitus, is here to tell you otherwise

Developing new products and technology is one of the best ways of keeping your business ahead of the game. However, when budgets are tight and the economy at large is battenning down the hatches, developing new products and taking them to market can be the last thing on your mind.

US President, Barack Obama, once said: "Cutting investment in innovation is like lightening an overloaded aeroplane by removing its engine. It may make you feel like you're flying high at first, but it won't take long before you feel the impact."

Indeed, our Government is so convinced that innovation is one of the keys to hauling the country out of the current financial mire that it's channelling significant tax resources to encourage UK companies to get involved in research and development

(R&D). The tax breaks now available to companies undertaking R&D to bring new products and services to the market are extremely generous and are set to increase even further from April 2012.

You might be thinking that R&D has little to do with the waste and environmental sector. If so, you're not alone. All too often R&D is wrongly perceived as only scientific or high-tech projects and that these are the only types of projects that will benefit from the generous tax breaks.

In fact, HM Revenue & Customs' (HMRC) definition of R&D means that many companies in the waste and environmental sectors could be claiming this extremely generous tax relief, for example, for the development of new waste or recycling equipment and processes.

Recyclemore Ltd, a waste management company, invested £100,000 in 2011 in developing new waste treatment

technology and associated services. It is likely that such a project would meet HMRC's definition of R&D and therefore 200 percent of the cost could be offset against Recyclemore Ltd's tax bill for 2011. By reducing its tax bill by £200,000 Recyclemore (a 26 percent corporation tax payer) is making a tax saving of £52,000. If the investment in R&D had put Recyclemore Ltd in a loss-making position it could recoup some of their costs by taking a tax credit of 12.5 percent instead – this would mean a cheque in the post from the taxman for £25,000.

From April 2012 R&D tax relief will increase from 200 percent to 225 percent for small and medium-sized enterprises (SMEs) on R&D expenditure incurred. Qualifying R&D expenditure includes employee costs, consumable materials and a proportion of utilities used during the project. For large companies, R&D tax relief is slightly less generous at 130 percent, but worthwhile claiming nevertheless.

In addition, if you have outsourced R&D to another company you may still receive tax relief on the expenditure. And if your company has received a grant for an R&D project you may also be eligible to claim tax relief.

Importantly, if you failed to claim R&D tax relief on a project you undertook in the past, retrospective claims can be made for R&D expenditure incurred up to two years prior.

If you think you might be eligible for R&D tax relief seek professional advice without delay. The money is there for the taking – it could be a lifeline for cash-strapped businesses. **CIWM**

Capitus is an investment incentives consultancy specialising in R&D, regeneration and sustainability, capital allowances and international tax depreciation. For more information visit www.capitusgroup.co.uk.

