

Are you missing out on cash for innovation?

The Research and Development (R&D) tax credit scheme has been running for over 15 years to reward innovative companies and to stimulate growth in the economy. *Food Processing* finds out more.

The scheme works by reducing a company's corporation tax bills, sometimes to zero and loss making companies can claim a cash payment. The scheme is applicable to any UK company seeking to improve or develop new products or processes, whether they be manufacturers, machinery makers, packing suppliers or anything in between – there are no industry or sector specific qualification criteria.

The downside of the scheme is that it is poorly understood and many companies don't recognise that what they are doing qualifies as R&D. A good deal of professional advisors are also unsure, so many potential

beneficiaries of the scheme are missing out.

Eligibility criteria

If you are a UK registered limited company (not LLPs, partnerships or sole traders) you have the potential to benefit. To qualify you need to be involved in attempting to do something that is more than just routine work. The Government guidance says: 'Work that advances overall knowledge or capability in a field of science or technology, and projects and activities that help resolve scientific or technological uncertainties, may qualify for R&D relief'.

It is easier to think of the scheme in terms of projects to develop new or improved processes or products. Project examples include reducing salt or sugar content, removing allergens, becoming gluten free, having all natural flavours; creating new manufacturing process, machinery, equipment and process automation/robotics; improving food products or packaging and packaging materials for better shelf life or to reduce food waste; or developing new or improved hardware and software control systems.

So, what sort of R&D work can be claimed for? According to Linda Eziquiel, a principal consultant at R&D Tax, you first have to identify what qualifying activities you have undertaken and how much they have cost you. "The lion's share is usually internal labour costs – 'white coat' and 'brown coat' employees and project managers working on development projects," she said. You can also include the relevant portion of your energy, consumables and wasted material or ingredient, used up as part of the development process. A portion (65%) of relevant costs associated with hiring contractors or test facilities and agency staff to help you with your development projects also counts.

"All the costs must be revenue expenses incurred during the relevant accounting period (including qualifying capitalised/ amortised intangible assets). You cannot include the cost of purchasing large pieces of equipment or machinery (there is a separate scheme that relates to capital expenditure)."

There are two schemes – one for large companies with over 500 employees and one for SMEs with under 500 employees. SME's get back between 18% and 33%

> pg 34



Many companies in the food industry are missing out on cash for innovation from the R&D tax credit scheme as they do not recognise that what they are doing qualifies.

< pg 32 of their qualifying R&D costs while large companies get back around 9% of their qualifying R&D costs.

Successful claims from food processors have included:

All-natural ice cream manufacturer:

Each year the company spends an average of £150,000 on qualifying R&D activities and its R&D claim has been reducing its tax bills by around £40,000 per year. It has been claiming R&D tax relief for six years. In a typical year the company might launch 20 new products and another 20 products are worked on but not launched.

The company was already producing a successful range of ice creams but taste trends change and there is an increasing demand for 'all natural' products. The company wanted to develop a new range of 'all natural' ice cream recipes in new flavours, that it could successfully mass manufacture.

The 'scientific and technological' uncertainties are in how to develop effective recipes that will be of the right consistency, taste and characteristics to work in the mass manufacturing process. It was necessary to research and trial different ingredients to find natural replacements that would work as a substitute for its tried and tested ingredients. Every change in the ingredients has an impact at all levels including texture, taste, shelf life and price point and it may also cause problems when mass manufacturing trials begin.

The company researched possible 'natural' ingredients that could be used as substitutes in its base recipes and developed some of its flavourings. The company's recipes are initially produced in five litre batches. Those that pass the taste test and meet necessary standards go on to be produced in larger batches. At



Food Processing spoke to John Griffiths, engineering director at Princes Foods, about the company's experience of R&D Tax credits.

Q: How did you find out that the company was eligible to claim R&D Tax Credits?

A: I knew from a previous employment. KPMG was assigned by the company to deliver the programme.

Q: What were you able to claim for?

A: Dealing with technical uncertainty with product and process development. This included labour and material resources, where they were relevant and met the qualification criteria.

Q: Was the claims process arduous? What advice would you give to food companies considering making a claim?

A: I would advise anyone to use an R&D tax credit specialist. Yes, there is a cost to doing this, but the benefits far out way the costs and make the claims process much simpler.

this point recipes often need adjusting or even have to be abandoned. A few will make it to mass manufacturing trails and if it is found at that point they work and meet a good price point they go on to be launched. Inevitably many fail along the way. Qualifying costs on failed projects are valid R&D costs.

Sandwich producer: This company makes sandwiches in large quantities and they all need to be well packaged, sometimes for specific purposes. The company needs to develop new packaging and is always looking for ways to be more efficient in its production processes. It received a cash benefit of around £33,000 as a result of an R&D claim last year.

Some pre-packaged sandwiches for airlines are re-heated on the plane. An incident where a cabin became fume filled resulted in new packaging regulations and the company wanted to see if it could develop heatproof inks and films. It did not know if it could find a packaging film which would be heatproof to around 200°C and a suitable ink that did not run or give off fumes when heated to a similar temperature. If it could find such solutions there would still be uncertainty over whether they could be combined and how best to do that.

The company searched for and tested a number of film and ink products none of which were previously certified as heat resistant to the temperature needed. It then created prototypes for testing and more testing is still required before the company will have a fully tested product.

Frozen ready meal producer: One of

over 20 food recipe and food processing projects undertaken by this company in a single year – which has resulted in a corporation tax bill reduction worth around £70,000 – was the search for a 'takeaway style' range of simple frozen meals with chips, a sauce and some protein such as chicken. The product had to be good enough to match the takeaway version and all components needed to be assembled and cooked together. A product existed, but it needed improvement.

The company did not know if it could achieve a better eating experience from a frozen product at the right selling price. Chips, when cooked and presented separately, can be dry and tend to stick together and the company also wanted to improve the chicken quality by using different starches. It needed to ensure that key components and the weights would cook without over or under-cooking any of the other ingredients.

The company carried out many tests and the best tray format was identified. However, it was not happy with the original target component weights and many adjustments were made and further cook trials undertaken. The best results came from a much-improved heavier pack weight which had a bearing on the unit costs. Multiple taste tests of the chicken starches were undertaken before cooking and after cooking to establish moisture losses and/or gains. ■

Project examples for this article were provided courtesy of RandDTax – www.randdtax.co.uk.