

Understanding HMRC's guidelines

The HMRC guidelines for what constitutes R&D are extensive... but not always clear!

IT CAN TAKE A FAIR BIT OF EFFORT TO PICK THROUGH THE TERMINOLOGY AND UNDERSTAND HOW HMRC DEFINE R&D.

1 - Technological uncertainty

HMRC are clear that a company must be trying to achieve their goals by resolving technological uncertainties within a specific project. The problem lies in interpreting the meaning of 'uncertainty'.

In the eyes of HMRC there is a vast difference between technical uncertainties and technical unknowns. R&D will only start when technical uncertainties arise; technical unknowns on their own cannot be counted as eligible R&D.

This essentially comes down to whether or not a problem is readily resolved by a competent professional – if it is then it is not a technological uncertainty. R&D begins when conventional knowledge has been applied and exhausted without a resolution to the problem.

For a more detailed explanation on identifying technological uncertainties, take a look at **THE THREE KETTLES ANALOGY**:

A company aims to develop a more efficient kettle. It buys three kettles made by competitors and tests each to qualify the performance. Although the performance of each kettle is unknown it is possible to carry out the tests with conventional methods. This data may provide engineers with a clear idea on how to develop a more efficient kettle. In this case the unknown has been resolved (ie the performance of the competitors kettles) and, as established methods were used this is not R&D. However, if, once the unknowns have been resolved, it is not clear how the engineers will develop a more efficient kettle, this becomes a technical uncertainty and R&D begins!

2 - Trial and error

Trial and error is another minefield on the fine line between eligible and ineligible R&D!

Trial and error is essentially experimentation using routine methods; when used to remove unknowns that precede R&D it is ineligible but if used to resolve technical uncertainties that form part of R&D then it is eligible.



After being told by a very reputable company that we couldn't apply for R&D tax credits, we then met Jumpstart on their stand at a business trade show and they insisted we could apply. The next thing a cheque arrived from HMRC! It really was that straightforward. Let them take the strain, it really is worth every penny.

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FOR EXAMPLE, if a company is using trial and error to find the best glue for their purpose, this would not be R&D; the company knows that with this trial they will find the best glue for their purpose.

However, if trial and error is used in such a manner as to generate new knowledge, for example if a company uses trial and error to determine how different conditions affect cell tissue cultures the outcome is not readily deducible. It is therefore R&D.

3 - Process improvement

Advancements in a company's processes can only qualify as eligible R&D if they are geared towards advancing science and technology, and not simply for increasing profits.

For instance, if a bakery installs new machines to improve production processes but is forced to carry out major adaptations to resolve technological uncertainties before this improvement can be seen then this is eligible R&D.

However, if process improvement is carried out purely for commercial gain – such as improving the processes using standard methods with a view to increasing production rates – then it does not count as R&D.

THIS IS JUST THE TIP OF THE ICEBERG OF THE MANY SPECIFIC DEFINITIONS OF ELIGIBILITY PROVIDED BY HMRC ON THEIR WEBSITE, SO IT IS EASY TO SEE HOW AN APPLICATION FOR R&D TAX RELIEF CAN BE CONFUSING.

Don't miss out – make sure you investigate your eligibility

R&D tax credits can provide significant financial rewards to companies performing a broad range of activities. R&D tax relief can be complex and time consuming, but if you choose the most appropriate approach and advisor it can be highly worth your time, but consider your options carefully.

We specialise in helping companies who are looking to optimise their claim, experience a better service or pay a more competitive price – this leads to maximised, robust and defensible claims, reducing risks, time and effort for you.

For a free R&D tax credit consultation and analysis of the potential returns you might expect from your projects, contact the ABGI-UK team

About ABGI

ABGI is an international leading tax incentive and innovation management advisor. We help companies accelerate financial performance, innovation and business expansion by capitalising on their R&D and innovation activities, in compliance with all rules and regulations. **Whatever innovation funding challenges you face – in the UK or internationally – we can help.**