



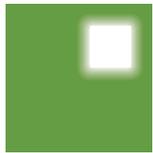
**CONSTRUCTING
EXCELLENCE**
South West

Information Bulletin

Tax Credits for the
construction sector

Advice Note 1





SustainOvation Forum

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Constructing Excellence South West (CESW) has identified a number of key areas of particular relevance for the construction sector and have set-up a number of forums to concentrate on those sectors. The 'SustainOvation Forum' (combining 'sustainability' and 'innovation') is jointly chaired by David Greensmith and John Savage. As with all the forums, its purpose is to provide knowledge and best practice to CESW's members. As part of this, the SustainOvation Forum has produced this bulletin on tax credits.

The Government launched the Industrial Strategy – Construction Sector Deal in 2018. The Construction Sector Deal identified 5 keys 'foundations' which the construction industry should focus on. These are:

- 1) Ideas**
- 2) People**
- 3) Infrastructure**
- 4) Business Environment**
- 5) Places**

The first of these foundations is 'ideas'. The Government has committed to increase investment in research and development to 2.4% of the Gross Domestic Product by 2027 with a strong emphasis on developing new construction technologies and techniques using a digital platform. The Government has already announced funding for a number of centres of innovation and research which will focus on the construction sector.

The Government acknowledges that in order to push the construction sector forward to a more technological based sector, it needs the private sector to invest in research and development. Therefore, by way of example, the Construction Sector Deal has announced that tax credits for research and development ("R&D Relief") in the construction sector for 'large companies will increase to 12% in respect of expenditure incurred from 1 January 2018.



The qualifying criteria

As with many tax arrangements the criteria to obtain R&D Relief can be a complex. However, in general terms, tax credits are available to companies who expend money on defined research and development activities. It is a credit against Corporation Tax and therefore is available to companies as opposed to partnerships or individuals. There is a distinction between 'Small to Medium Enterprises' (SMEs) and 'large companies'. A SME is a company which has fewer than 250 employees and an annual turnover not exceeding EUR50 million. If the company is not a SME then it is deemed to be a 'large company'. The R&D Relief is treated differently for those companies who are classified as 'SMEs' and those companies which are defined as 'large companies'.

For SMEs in financial terms, if a SME spent £40,000 on qualifying costs on R&D activities during 2017 then it can deduct £92,000 from its profit before tax (namely: £40,000 x 230%). The amount of R&D Relief is capped at EUR7.5 million per project. For large companies 11% of the R&D expenditure is added to the taxable profits but the tax payable is reduced by the 11% of the R&D expenditure. For example, a large company which has a R&D expenditure of £100,000 has a reduced tax bill of approximately 8.9%.

The relief has to be claimed within 2 years of the accounting period in which the expenditure was incurred. To establish whether the particular activity is a qualifying 'research and development' activity the Department for Business, Energy and Industrial Strategy (BEIS) has provided guidance on its website:

<https://www.gov.uk/government/publications/guidelines-on-the-meaning-of-research-and-development-for-tax-purposes>.

Within the construction sector, the following are a few examples of R&D activities:

- 1) Developing new products such as lighter-weight, stronger, resilient or easier to process building materials.
- 2) Reducing the impact on the surrounding environment through new construction processes.
- 3) Developing off-site manufacturing and modularisation techniques to improve delivery time and reduce costs.
- 4) Integrating renewable energy technology in buildings to reduce carbon footprint.
- 5) Developing novel techniques for land remediation/ reclamation to minimise effect on surrounding environment.
- 6) Developing unique water treatment plants to optimise capacity and efficiency.
- 7) Designing with composite building materials to improve the energy efficiency of a building.
- 8) Integrating new material to improve product performance and manufacturing process.
- 9) Developing a pilot plant to investigate the concept of a new process to increase throughput.



The qualifying criteria (continued)

The expenditure which can be claimed includes: wages, eligible materials and software, utility costs and costs from third parties. The costs do not need to have been incurred in the UK but the expenditure must be deductible for tax purposes in the UK.

The guidance indicates that the initiative must advance the overall knowledge or capability in a field of science or technology and not a company's own state of knowledge or capability alone. Further, HMRC will look for a specific project which is advancing science and technology, although such a project can be part of a larger project.

As to what constitutes the 'advancement of science or technology' then, in the case of science, it is: physics; engineering; chemistry or biology. In the case of technology, it is: "the practical application of scientific principles and knowledge". Interestingly, it is possible to claim R&D Relief on a project which seeks to duplicate a competitor's product or service if it not known how that product or service has been brought about. Fundamentally, a R&D project is one which is designed to remove an uncertainty and once the uncertainty is resolved, the project is complete.

For companies which have a turnover of less than £2m and fewer than 50 employees, HMRC offers an advance assurance process whereby it will confirm whether or not the proposed expenditure will qualify for R&D Relief. This assurance will remain in place for 3 years without the need for further evidence.

Further assistance and information

In order to successfully claim R&D Relief the following questions should be addressed as soon as possible as the project is being developed:

- 1) What is the R&D project and, if relevant, what is the larger commercial project?
- 2) What are the scientific or technological uncertainties involved in this project?
- 3) How are those uncertainties being overcome?
- 4) What methods of overcoming the problems scientific or technological advances and if so, what are those advances?
- 5) In what way does the project go beyond the current state of knowledge?
- 6) Why is the knowledge or capability not readily deducible by a competent professional in the field?
- 7) When were the particular uncertainties overcome?

In the event that you consider that some or all of your business activities may attract tax credits for research and development then it is recommended that you discuss this with an accountant who has experience of recovering tax credits. Some firms provide a fee structure which is based upon the amount of tax credit the company receives. Others charge a fee based upon the extent of the advice provided. Either way this is something which is worth looking into.





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