

FOCUS ON

R&D tax relief opportunities for construction and real estate companies

Many property and construction companies are missing out on cash that they are entitled to as they do not think they “do research and development”.

However research and development tax relief is available in any situation and you are arriving at innovative solutions where there are uncertainties to be resolved.

For SMEs the effective cost of certain staff and expenses can be reduced by around a quarter, for larger companies they are reduced by 8.8%.

Working in property and construction often requires you to be creative and innovative when faced with certain problems, to arrive at a solution that is both effective and cost efficient for you and your client.

All too often organisations undertaking such work do not consider that they may be eligible for research and development (R&D) tax relief. Consequently the significant benefits go unclaimed.

As an example we recently worked with a Mechanical and Electrical consultancy firm who did not think they would be eligible. We have just received a tax repayment of over £150,000.

What are the benefits?

Any development work where your personnel face considerable technological challenges, provided the solution is not available to, or readily deductible by, a ‘competent professional in the field’, has the potential to qualify for the enhanced tax relief. For small and medium sized businesses (SMEs) this takes the form of an additional tax deduction calculated as 130% of qualifying revenue costs and provides a net tax benefit of 26% 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 benefit is 8.8% of the spend. For loss making companies, the 8.8% is available as a cash credit.

Capital spend on R&D should also not be overlooked as there is an immediate deduction available for capital R&D expenditure. This gives a significant cashflow benefit when compared to other allowances where, at best, the relief is given over 10 years, and at worst, not at all.

Qualifying costs

Qualifying revenue expenditure includes primarily the salary costs (including employers’ NI, pension contributions and some expenses) of employees directly and actively involved in the R&D and also where undertaking certain supporting activities. The legislation also allows the cost of consumable items and a proportion of contract staff costs, software licences and power, heat and water used in the R&D projects to be claimed.



The SME relief allows claimants to include the costs of R&D subcontracted to third parties but R&D which is funded or subsidised is not eligible for the enhanced SME deductions. SMEs can however make claims under the large company regime for some expenditure that is excluded from the SME scheme. For both, there is no requirement to own the IP.

Understanding your industry

We have significant experience of working with property and construction businesses to prepare and submit R&D claims. Recent examples of qualifying activities include:

- Early concept development; making buildings more responsive to the environment, exploiting solar gains, daylight, nighttime air for cooling, and passive ventilation strategies for internal comfort (e.g. developing glazing and rooflight design, including locating and sizing the glazed elements to provide optimum daylight and thermal properties).
- Work involved exceeding the correct BREEAM ratings, i.e. overcoming system uncertainties in designs and conducting thermal modelling and CO2 reduction calculations.
- Integrating new technologies into buildings whilst ensuring that the other required building services are sourced, can be installed and effectively commissioned. Significant levels of system uncertainty can arise in such cases because of the number of different complex elements involved making it difficult to predict how the components will interact.
- Remediation of contaminated land, either where there are specific unknowns (e.g. unstable slopes, liquefaction potential, or how to dispose of contaminants) or where projects are being carried out at a significantly reduced cost (both financially and environmental) compared to other proposed routes. It may be possible to claim both R&D relief AND the additional 50% relief for land remediation work on the same costs, i.e. a total

deduction of up to 180%

- Working to retain resilience in the energy infrastructure, avoiding single points of failure that could potentially lead to blackouts or plant closures.
- Overcoming unforeseen problems during the build (e.g. erosion of materials due to gas or water vapour ventilation, or air conditioning units not operating effectively due to bespoke casings).

Why MHA MacIntyre Hudson

The R&D team at MHA MacIntyre Hudson can assist by ensuring that all activities that could qualify for the relief are identified, assessed, documented and where appropriate, claimed. The team has considerable experience of claims, not only in property and construction but also in numerous other sectors and have developed a cost effective methodology, working with you to prepare a robust R&D claim on a turnkey basis with minimal disruption to your core business. We will also leave you with a working model such that you are in a position to prepare subsequent claims in house, if required.

Over the years we have developed excellent working relationships with the relevant inspectors at HMRC, thus enabling claims to be reviewed and agreed in the most efficient manner.

Contact us

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