

FOCUS ON

Research and development tax breaks for the Retail Sector

The UK has generous tax breaks for companies that undertake research and development (R&D) which can apply to the retail sector

Research and Development

To qualify for one of the R&D reliefs, a project must meet the definitions set out by the Department for Business, Innovation and Skills. Very broadly, to qualify a project needs to seek to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty.

You may think that the retail industry doesn't really 'do' R&D, but there are a wide range of areas in the retail sector where R&D is very relevant and it is easy to miss out on valuable tax reliefs if these are overlooked.

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Qualifying costs

R&D tax credits can be claimed on:

- The cost of employing staff who are directly or actively engaged in carrying out the research and development;
- The cost of the materials that are used in the research and development; and
- On payments made to subcontractors that are assisting with the research and development.

What relief is available?

It is not enough that a product is commercially innovative; it must go beyond this to seek an advance in science or technology. So where could this apply in the retail sector?

A good rule of thumb is to look at where the company has a product or process, and works to improve this.

Some examples of this could be:

- Product development/manufacturing
- Warehousing and stock control
- Supply chain management
- Payment systems
- Marketing – customer targeting/profiling
- E-Commerce platforms, apps

It's easy to see that qualifying R&D activities might be happening across the company. In fact, large retail groups around the world are investing in innovation labs and development houses in order to improve in many of these areas.



Example

There are two main tax reliefs available for R&D. The first applies to 'small or medium sized' (SME) companies - broadly companies with fewer than 500 employees and either a turnover of less than €100m or a balance sheet total less than €86m.

This SME relief provides an extra 130% deduction on qualifying expenditure. In some cases losses can be surrendered to give a 14.5% payable tax credit, equivalent to 33.35% of the qualifying expenditure. The second relief applies to 'large' companies. This R&D Expenditure Credit (RDEC) gives an above the line 11% credit on qualifying expenditure, which in some cases can equate to an effective 8.8% saving on qualifying expenditure.

R&D tax relief can improve your company's cash flow by reducing its tax liability and, in some cases, by obtaining an additional tax repayment.

How can we help

HMRC will review all claims carefully so it is important to ensure any claim meets the necessary criteria. We have worked closely with retail businesses for many years and have completed many claims for companies. We can help identify potential claims and R&D expenditure, and can prepare and submit any claims to HMRC, working with you or your accountant.

Contact us

For further information, please contact our Retail specialists:



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