Technology design work may qualify for R&D Tax Credits

CREACTIVE DESIGN

Design Consultancy
Leamington Spa, Warwickshire
15 Staff
2005-06 Turnover £2.3m
2005-06 R&D £0.2m
www.creactive-design.co.uk

KEY ISSUES IN THIS CASE STUDY

- Belief that R&D in high value products is the future
- Not all design meets R&D definition
- Product development via aerodynamics and thermodynamics was eligible.

The company

Creactive is an award-winning product design consultancy, based in Leamington Spa. It was founded in 1989 and currently employs 15 people.

The company's approach is based on the belief that product design should be an integral part of a cohesive marketing strategy and they work with their clients to produce solutions that meet specific commercial, strategic and manufacturing requirements. They have an in-depth knowledge of design trends, materials and production processes gained from projects undertaken for clients working in diverse industrial sectors, ranging from toys to telecommunications and from consumer goods to architectural hardware.

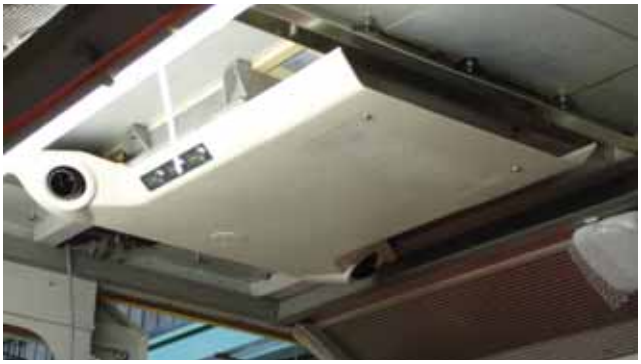
The Creactive team has won numerous awards for product design including IF Design Award, DBA Design Effectiveness Award, Minerva Award and British Design Award.

Why R&D matters

"....R & D in high-value complex products is the future for us"

Tony Hume, Director, said: " Our company is using R & D to generate our own product range so that we become less reliant on the design consultancy marketplace which is being affected by the large increase in Far East activity and large investment in design education. I believe that R & D in high-value complex products is the future for us, allowing growth of spin-off businesses specialising in each product sector selected."

The company report ending April 2006 showed a turnover of £2.3 million with an R&D expenditure of £0.2 million. The R&D as % of sales was 10%.



Making a tax credits claim

"identify exactly which costs qualify"

Tony said: " We found out that we were eligible to apply for the R&D tax credits by reading our accountants' newsletter. We asked our accountant to help us identify exactly which costs qualify for the tax credit under the SME scheme. The area that was most difficult in the claiming process was deciding what qualifies as R&D for taxation purposes and convincing HMRC that our project was eligible for the tax credit."

Our experience

"The R&D combined the study of aerodynamics and thermodynamics."

Tony said: "Our main R&D tax credit claim using the SME scheme was successful but claims for other smaller projects were not considered by HMRC to meet the R&D definition as they were not innovative.

"The successful project was to research and develop a product that would cool train drivers/operators directly using streams of chilled air but with very low energy consumption. The R&D combined the study of aerodynamics and thermodynamics to provide a viable solution to the product design. The final product is an electrically powered cab air-cooling system. Apart from the air blowers it has no moving parts, no refrigerants and virtually no maintenance with 10% of the energy consumption of a traditional cab air conditioning system. Cooled air is produced using electronic devices and the cooled air is carefully ducted to the driver's preferred location.

"The main lesson we learnt was the fact that the definition of R&D for taxation purposes is different from the more widely used definitions in industry. We benefited from the R&D tax credit as it allowed us to invest more money in R&D and this, in turn, strengthened our product range."

Creactive was not aware that they can claim 100% capital allowances for R&D based capital expenditure, however, they rely on their accountant to be fully informed.

Advice to newcomers

"My advice to newcomers: don't assume that your project will qualify for the R&D tax credits; check first with your accountant and with HMRC. I would recommend other small companies to claim the R&D tax credit especially as cash-flow is important to the survival of small companies."

Technical Note: Definition of R&D

R&D for tax purposes takes place when a project seeks to achieve an advance in science or technology. The activities that directly contribute to achieving this advance in science or technology through the resolution of scientific or technological uncertainty are R&D. Activities which do not directly contribute to the resolution of the project's scientific or technological uncertainty are not normally R&D. An advance in science or technology means an advance in overall knowledge or capability in a field of science or technology (not a company's own state of knowledge or capability alone). A more detailed explanation of some of these concepts is available in the 2004 DTI guidelines available at: http://www.dti.gov.uk/innovation/randd/randd-tax-credits/RandD-Tax-Guidelines/page14094.html

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