

R&D in high performance engineering

CROMPTON TECHNOLOGY GROUP LTD

Design and manufacture of products based on advanced composite material technology
Banbury, Oxfordshire
60 staff
2005 Turnover £5.2m
R&D £0.4m
www.ctgltd.co.uk

KEY ISSUES IN THIS CASE STUDY

- ▶ Its about resolving technical uncertainty, not just "men in white coats"
- ▶ Increasing process output could be eligible R&D
- ▶ Acceleration of business plan, based on improved cash flow
- ▶ Use experienced accountants and liase with HMRC

The company

Crompton Technology is a high performance engineering company specialising in design and manufacture of products based on advanced composite material technology. They are a specialist in the development and production of advanced composite components for a number of sectors including magnetic resonance imaging scanning (MRI), aerospace and defence, performance automotive, subsea and turbo machinery. In addition to the development and manufacturing technologies, the company have in-house test facilities that enables them to accelerate the introduction of their products into their chosen marketplace.

Based in Banbury, this small company employs 60 people. It was set up 5 years ago from management buy-in of Crompton Plastics (which was founded in 1969).

The objective of the company's R&D is focused on developing new products based on composites, particularly filament winding technology so that they can bring new innovative products to the market as soon as they possibly can.

The company report ending December 2005 showed a turnover of £5.2 million with an R&D expenditure of £0.4m. The R&D as % of sales was about 8%.





Eligible costs

Scott Roberts, Managing Director, said: "We have an external professional accountancy firm who gives us expert advice and they told us that we were eligible. In discussion with our accountants, we drew up a spreadsheet and identified all the employees who work on R&D, the % time spent on these activities, how much they cost the business, spend on materials, etc. Our accountants did an audit of our company and scrutinised our spreadsheet."

Making a tax credits claim

"My company philosophy is that we must do more R&D to bring more new products into the market and quickly"

Scott said: "I found the claiming process to be incredibly straightforward. I am a company director; I know how to run my business. I am not an accountant but I work with my accountants on the basis that they are experts in accountancy. It is for my accountants to ensure that our figures are correct, to submit our corporation tax return to HMRC and to understand the intricacies of the R&D tax credit relief. But, I sit down with the accountant so that he can explain in plain language what the implications are to my business.

"I also attended a number of presentations given by HMRC staff that spoke about the R&D tax credits and the process of making a claim. They explained how the R&D tax credit was introduced by the Chancellor to incentivise companies to spend more money on R&D and thus help increase the UK's competitiveness in the global marketplace.

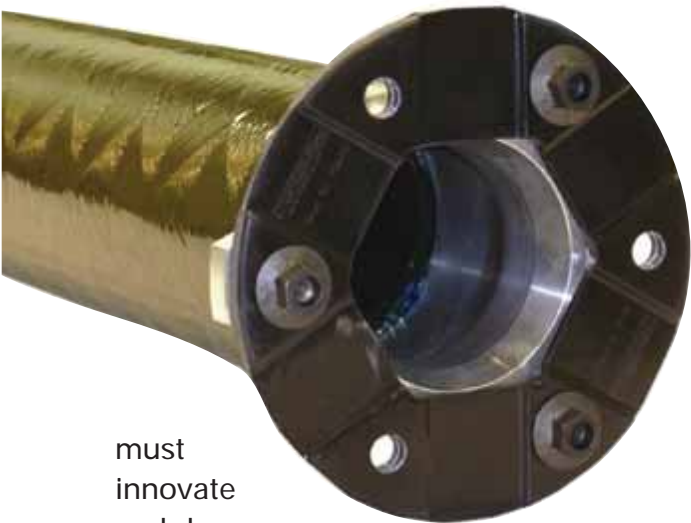
"My company philosophy is that we must do more R&D to bring more new products into the market and quickly. And the more R&D we do, the more tax relief we can claim.

"We have claimed the R&D tax credits since the beginning of 2003 and our claims are successful".

Our experience

"It is about being innovative, resolving a technical uncertainty."

Scott further added: "I have personally learnt that if you get the right help by appointing a professional accountancy firm, the claiming process is easy. If I want my company to develop new products, penetrate new markets, then we



must innovate and do more R&D. I learnt what R&D meant as far as taxation is concerned. This is crucial – R&D is not about pure research or even about scientists in white coats working in laboratories. The definition of R&D for taxation purposes to us means we can develop new products based on composite materials. It is about being innovative, resolving a technical uncertainty."

Increasing process output could be eligible R&D

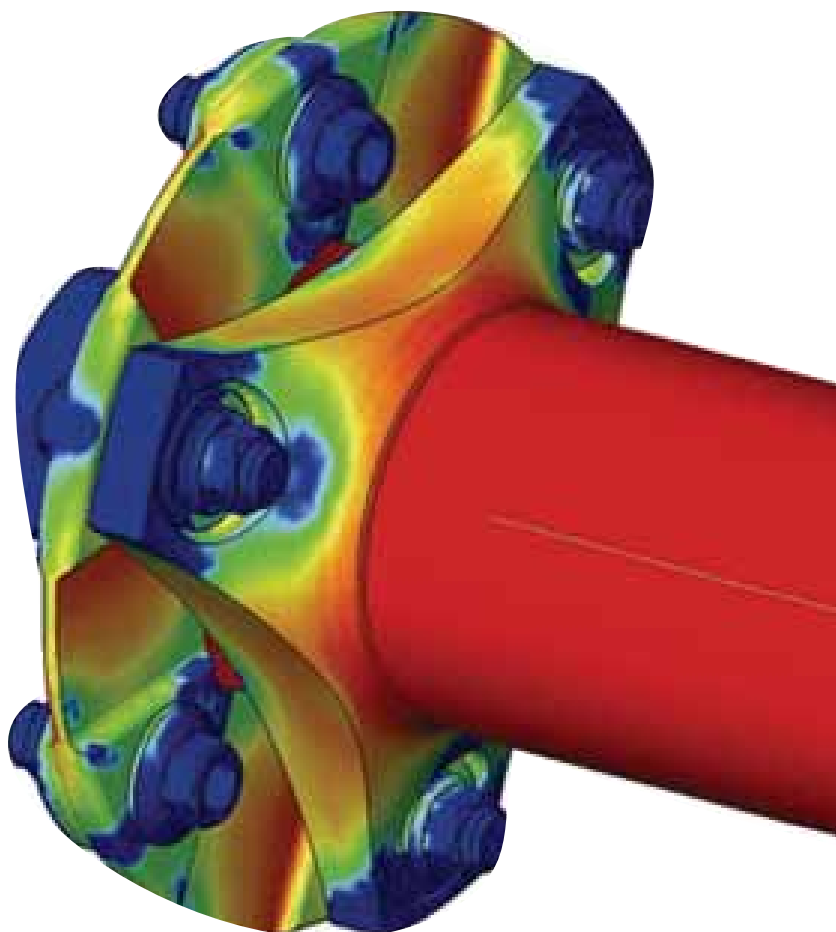
"So, if you have a machine and it makes a product but its output is only 10,000 and you have an opportunity to export 100,000 overseas, then you have to adapt your machine to greatly increase its efficiency. This is a step-change in the way you manufacture and this is development you may be able to claim tax relief for."

Level and amount of tax credit received

Crompton Technology claim the R&D tax credit using the SME scheme and they outlined that in:

- ▶ 2003, their R&D spend was £185k and this meant they could claim 150% or an extra £93k as a deduction from the company's taxable profits.
- ▶ 2004, their R&D spend was £223k and they successfully claimed an extra £112k as a deduction from taxable profits;
- ▶ the 2005 claim will be based on an R&D spend of £396k.

Scott said: "We spend substantial amounts of money on development activities. We have introduced some new products into the aerospace and defence sector which has enabled us to grow from one or two contracts to winning some significant contracts within the last 18 months."

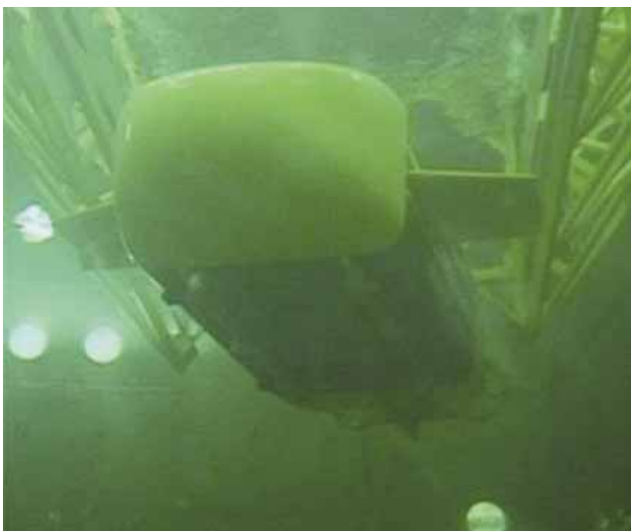


The benefits

"This allows me to accelerate my business plan."

Scott said: "My business strategy incorporates the fact that I want my business to grow, year on year. Undertaking R&D activities helps us to develop the technology into new products using new robust manufacturing procedures. The more R&D I do, the more tax relief I can gain. And the more relief that we get, the less tax we pay. I have gone the extra step: if you are confident then you can predict what tax relief you will get at the start of the financial year, based on previous years' experience, this gives you the benefit of being able to forecast your cashflow. This allows me to accelerate my business plan – I can employ more staff, buy new machines and develop new technologies and bring new products and penetrate markets more quickly. So, the R&D tax relief is an excellent incentive – a small stimulation from Government makes a big difference to my company and our growth rate."

Crompton Technology claims 100% capital allowances for R&D based capital expenditure.



Advice to newcomers

"get an expert you can trust and rely on."

Scott said: "

- ▶ Get an accountant who has experience of helping companies access the R&D tax relief, and knows what the process involves.
- ▶ Sit down with the accountant with the ethos that – this is my business and I know how to run it. You are an accountant. You deal with the HMRC, it's your job to find out about the rules and the intricacies of applying them. He should have the ability to explain in plain language what the implications are for your business.
- ▶ Don't try and become an expert in accountancy or taxation if you are running your business – get an expert you can trust and rely on."

Recommend other companies to apply

"Do it as ...part of your growth strategy".

Scott said: "Yes, I would recommend others to apply. But, before you become all excited – this is my advice. Don't just go through the process of making a claim. Do it as part of your business strategy, as part of your growth strategy. Understand how you will use the tax relief to grow your business. If making a tax claim on the R&D activities is incorporated in your business plan, you will go through the process of claiming it anyway. But, the tax relief that you get is an extra bonus. Ask and understand through your accountant what the R&D tax credit is all about and use the relief that you gain to grow your company."