

# R&D in advanced surveillance systems and products

## SYSTEMS ENGINEERING & ASSESSMENT LTD

Advanced surveillance systems  
Frome, Somerset  
200 staff  
2004-05 Turnover £19.0m  
2004-05 R&D £2m  
[www.sea.co.uk](http://www.sea.co.uk)

## KEY ISSUES IN THIS CASE STUDY

- ▶ Time-consuming to assess which activities, on which projects, are allowable
- ▶ Can claim some time of staff who only work part time on R&D
- ▶ Worth the time, effort required from technical experts as well as finance staff, towards preparing claims

## The company

SEA is a UK-based systems company delivering advanced surveillance systems and products for demanding environments. The Company, which was founded in 1988, remains independent and continues to enjoy substantial year-on-year growth.

Activities are focused on the Defence, Aerospace and Public Sector markets and it has a reputation for innovation, high-quality and cost-effective solutions. The company

employs 200 people and maintains and develops its knowledge and skills base to match the expanding boundaries of technology and operational demands.

The company report ending March 2005 showed a turnover of £19m with an R&D expenditure of £2m. The R&D as % of sales was 11%.



Development testing of the Planck spacecraft cooling system at SEA's laboratory facilities.

# Making a tax credits claim

## Time-consuming

Tim Marvell, Finance Director, said: "We found out that we were eligible for the R&D tax credits by reading about it in the accounting press. We established which of our costs were eligible through discussions with our external financial advisors and various HMRC and DTI guides / technical papers that they provided us. There are some parts of the claiming process which we did not find straightforward, including:

- ▶ the assessment of which activities on which projects are allowable is time consuming and involves bringing in technical experts (diverting staff from their day to day jobs);
- ▶ the rules have now changed but for the first few years the calculation of the 20% / 80% allowable salary cost was quite complicated.

The rest of the process is OK."

### Technical Note: Can claim some time of staff who only work part time on R&D

This 80:20 arrangement was designed to simplify record keeping for those staff with only a small amount of their time needing to be examined critically. It was abandoned as a result of representations from companies that these requirements were not compatible with the way their accounting system interacted with the staffing records. The rule now is that an appropriate proportion of the staffing cost can be qualifying expenditure if the director or employee is only partly involved in relevant R&D.

# The benefits

## Worthwhile although time and effort required in identifying and separating costs

SEA reported that their R&D tax credit claims were successful. Tim said: "This is a worthwhile exercise but it takes time and effort. We have benefited from the R&D tax credits because the reduction of corporation tax payable benefits our cashflow and makes it much cheaper for us to carry out R&D activities."

SEA has claimed the R&D tax credit using the SME scheme. The level of R&D expenditure they will claim for 2005/06 will be approximately £2m.

Tim said: "We are aware that we can claim 100% capital allowances for your R&D-based capital expenditure. However, there were no significant items of capital expenditure dedicated to R&D activities and to date, we have not made a claim."

## Recommend others to claim

### Claiming worth the significant effort required from both technical experts and finance staff

"Our advice to newcomers to R&D tax credits is that it is well worth pursuing but don't underestimate the effort involved. Significant effort is required from technical experts as well as the finance department. I would recommend this scheme to other companies due to its impact on reducing the corporation tax liability and making more R&D projects viable."