



Food & Drink Specialist Accountants

R&D tax guide

Take control



INTRODUCTION

At Harlands, we have been helping food and drink businesses across the UK get money back into their business through R&D tax claims. This industry alone supports around 400,000 jobs, making it a major sector for the UK economy. It has been estimated that only 1% of eligible R&D tax claims for the food and drink industry have been paid out. This is a phenomenal figure. And part of the reason it is so low is because there isn't enough clarity into exactly what R&D tax credits are. That is why we have created this guide.

A food and drink business could have a successful claim for a number of reasons. These include –

- A new product, flavour or variety
- Changes to the formulation of an existing product
- Embedding new machinery or processes
- Changes in packing or storage

And there are other areas where your food and drink business could be eligible for a claim. Speak to our team today to find out if you have a claim in your business that is potentially worth tens of thousands of pounds – the average claim we make on behalf of our clients is over £35,000. Obviously, nothing beats speaking to someone about all of this, so if you have any questions while reading this guide, don't hesitate to get in touch. Our expert team are ready to help you understand R&D tax without any obligation to use our service.

This guide aims to help you in the key areas of an R&D tax claim –

- How to submit a successful claim
- Getting the tax man to understand what you have done
- Maximising every claim
- Avoiding the dreaded HMRC enquiry
- What to do if an enquiry does come your way

And we put all of this in simple language, so you can easily know what to do and how to make the most of these R&D tax claims.





Submitting an R&D tax claim for your food and drink business is simply following a tried and tested process. Speak to the experts who have a 100% success rate.

Explaining what you have done in a project for your food and drink business might make perfect sense to you. But it needs to be explained in a way where HMRC can see what you have done – and why it qualifies for R&D tax credit.

See [‘How to submit a successful claim’](#) ...

The guidelines on HMRC’s website don’t always make things clear. Details on submitting a claim that is specific for your food and drink business are not made clear there. Break through the jargon and understand how to write a claim that the tax man understands first time.

See [‘Getting the tax man to understand what you have done’](#) ...

Your food and drink business is likely to have a few areas where you can make a claim. But not all businesses make the most of every claim. Don’t miss out on a full claim. We aim to get as much cash back in your business as possible.

See [‘Maximising every claim’](#) ...

An enquiry from HMRC for your food and drink business can take up a huge amount of your time and leave you feeling misunderstood or in the wrong. And this is something you don’t want for you or your business. If you know what the pitfalls are, then you can work smart and avoid an enquiry from the tax man.

See [‘Avoiding the dreaded HMRC enquiry’](#) ...

There will be times when HMRC want to investigate a claim for your food and drink business. You don’t have to worry about this. Having all the information at your fingertips helps you to answer their questions and provide the confidence you need to deal with this.

See [‘What to do if an enquiry comes your way’](#) ...

HOW TO SUBMIT A SUCCESSFUL CLAIM

To submit an R&D claim for your food and drink business, you must know what the tax man is looking for. The words on the HMRC website look like they were written by a robot. With an estimated 89% of food and drink companies being involved in research and development, it would be a shame to miss out on a claim because it looks too complicated.

Don't get caught up in all of the technical information HMRC put out there. What you need is a simple guide to all of this that helps your food and drink business submit a successful R&D tax claim. The good news is that you are in the right place for this. We have used our knowledge and experience in helping food and drink companies to make the most of their R&D tax claims here.

Submitting a successful claim for your food and drink business is a matter of breaking down the jargon in the industry. Although HMRC are a major culprit when using jargon, they don't want to hear it from you!

There are two parts to an R&D tax credit claim for your food and drink business –

1. The accounts side of things – the numbers
2. The bit where you say what you did – the explanation

The figures are a matter of going through your accounts and finding the items that are used during the research and development of a new product, flavour or ingredient, for example. The more difficult part is explaining what you have done and why this fits the government description of research and development to qualify for a lump sum of cash back into your business.

Of course, food and drink are not the only eligible industries for R&D tax credits, but with a massive underclaimed pot of cash available it makes sense to look into this for your own business. A successful R&D tax claim for your food and drink business is a case of following set steps. We have been doing this for some time, so this guide is filled with what we have found.

At Harlands, we want to help the food and drink industry to get their hands on the money that the government has set aside to support it. Here is what you need to know -

WHAT THE TAX MAN DOESN'T WANT TO HEAR

Your food and drink business is probably swimming in data and content. You will have information coming out of your eyes on why customers should buy from you. We are here to let you know that this is not what HMRC are looking for.

An R&D tax claim is related to the uncertainty you faced as a business in a project and how you worked to overcome this. They want to know the way that your project made an advancement. But don't worry, that's not as obscure as it sounds.

Get in touch with us to find out more. A claim presented in the right way can see the money in your business in as little as 6 weeks. Yes, it's that quick!

HMRC ONLY OFFER GUIDELINES

The words on the HMRC website relating to R&D tax claims are there to give you an outline only. The detail with regards the food and drink industry don't exist. So, you need to know what they actually need to hear from you. You can't pick up the phone and ask them for help. That's just not the way they work.

The safest way to secure the money from an R&D tax claim for your food and drink business is to work with someone who knows the system inside out and has walked this path before. Harlands have been submitting successful R&D tax claims for many years with a 100% success rate. This means you get someone who will take the strain for you and help you secure the cash to help your business.



GETTING THE TAX MAN TO UNDERSTAND WHAT YOU HAVE DONE

The essential part of your R&D tax claim is to ensure that HMRC know what you have done. You need to submit a claim that puts the tax man in the picture so it is easy for them to understand and fit it against their guidelines. But there are different interpretations by HMRC with regards what R&D actually is.

So, a successful claim made a short while ago might not see the same successful outcome today. But there are common areas that come up time and time again. Here are the parts of an R&D tax claim that you need to be aware of -

WHAT IS A TECHNOLOGICAL UNCERTAINTY?

The crux of an R&D tax claim is whether it overcame an uncertainty. The idea behind it is that you are spending time, effort and money to resolve these uncertainties for the good of your food and drink business. Making your company more effective has a wider impact on the UK economy, which is why the government has put this incentive in place.

People often put forward claims that are not rooted in an uncertainty, and the claim is subsequently rejected by the tax man. Let's look at what this means by way of an example -

A food and drink business develop a new formulation, let's say in respect of the sugar tax on fizzy drinks. But just reducing the sugar content changes the taste. So, they have to work on the other ingredients to ensure the taste works for their customers. This might involve several discarded batches and customer testing. This was an R&D project that dealt with technological uncertainty.

ARE PROCESSES PART OF R&D?

HMRC is looking in great detail at this part of research and development, and how this relates to R&D tax claims. Some claims that may have been successful in the past in this area might not see the same result in the current climate. The project has to encounter and overcome uncertainties to be counted as an eligible claim.

As an example, if a business decides that they want to buy a new piece of machinery to improve the speed of their food production line, then this alone won't be counted as an eligible R&D tax claim. But if this new machine requires adaptation to the other processes in the food and drink business and causes uncertainty, then this can be part of a viable claim.

IT CAN BE ABOUT THE METHODS USED

Simply trying something out to see if it works isn't research and development in the way that HMRC defines it. The methods used are as important to an R&D tax claim as the results. This all revolves around the premise that we are increasing knowledge. If we get greater understanding by using technical or scientific methods, then this is R&D that will increase the knowledge base and provide a project that can be used as an R&D tax claim.

For example, if a business decides that they want to try a new form of packaging for their food product and just try out the available options until they find one that they (and their customers) like, then this isn't eligible for an R&D tax claim. If they test strength, durability and other factors to determine which was best from a point of uncertainty, then this would most likely be seen as an eligible R&D tax claim if presented in the right way.



MAXIMISING EVERY CLAIM

If you submit an R&D claim yourself then this can take up a lot of your time. You want to ensure that this time spent brings you in the maximum return. You want to measure the effectiveness of every part of your food and drink business – and submitting a claim is no different. If you miss out some of the parts of your business that you could have claimed for, then your future claims might be looked at in more detail by HMRC. It helps to get this right first time.

Here are some of the tips we have come up with in our time submitting R&D tax claims on behalf of our clients –

GET AHEAD OF THE GAME

One of the factors of a food and drink business is that it is fast-moving. Weeks, months and years can pass very quickly, leaving the details of what exactly happened a little fuzzy in the mind. As an R&D tax claim can be for the last 2 tax years as well as the present one, there can be a lot of costs associated with a research project that won't come to mind if you look back.

That's why it is important to keep records as you go along. The figures and management information of a set of accounts might be a great overview, but you need detail here. If you added a new machine to your production line, then all of the finer details such as how it was embedded into the existing process and any changes needed might be forgotten when everything started running smoothly. These are the costs that an R&D tax claim is focused on. Make notes as you go, even if some of the projects don't end up being part of a claim. This will ensure you miss nothing and get the most from every claim.

STAFFING COSTS ARE ABOUT MUCH MORE THAN SALARY

When calculating staffing costs, it can be easy to get drawn into the situation where you look at their salary and then use this figure in the form.

Remember that the costs of employing a member of staff are about more than their basic salary, and can include –

- Employer's National Insurance contributions
- Pension contributions
- Any costs for outside contractors related to the project

Staffing costs are often the biggest expense for any food and drink business, so making sure that all relevant costs in this area are submitted as part of a claim can make a significant impact on the size of the eventual claim. As your food and drink business grows then the different areas of this element of a claim can add up to a sizeable sum.

UNDERSTAND HOW GRANTS CAN AFFECT YOUR CLAIM

If you get any kind of grant or subsidy for your food and drink business, then you can see your R&D tax claim impacted significantly. There are many different grants and incentives, and these are treated in different ways by HMRC. As with the advice above, you should keep records of any grants received and this can be taken into account with your R&D tax claim. The best way to ensure that you are submitting accurate information to the tax man is to work with a partner who understands this area and can guide you. Get in touch with us to find out more.

KEEP UP TO DATE WITH HMRC'S WEBSITE

This sounds like torture to many, but if you want to submit your own claim then you need to stay in touch with the legislation around R&D tax claims. The regulations are being refined all the time, so you should keep checking the website to see what the current rules say, and how they can affect you.

Once you understand what these mean to your food and drink business, then you are in a position to ensure your R&D activities are relevant and can be supported when you come to make a claim. Alternatively, work with us. Our team of experts are in constant contact with HMRC and stay on top of any changes that could potentially affect an R&D tax claim for you. We have been working with food and drink businesses for a number of years to help them get the most from their R&D tax claim and put vital cash back into their business.

Simply put, you should always remember to –

- Keep records as you go
- Include all related staffing costs
- Make detailed notes about any grants you receive
- Regularly check HMRC website for updates

AVOIDING THE DREADED HMRC ENQUIRY

There aren't many people that like dealing with HMRC. It is a shame really because there are some really great people that we get to chat to sometimes! An enquiry from the tax man can feel like you are under pressure to explain every little thing you have done in your food and drink business over the last year. With this in mind, we have compiled some simple ways to avoid an HMRC enquiry -

SIMPLICITY IS THE KEY

There may be some technical details about how some of your ingredients react with each other and how this affects the taste of the finished product. As interesting as this is, the tax man wants to hear some simple details about the project you have undertaken. You should explain simply the problem you faced and how you overcame it. Use straightforward language and your claim will be far more likely to be processed and not the subject of an enquiry.

Even if there are some highly technical elements to your business, try to cover these in easy-to-understand language that will avoid more scrutiny. The best R&D tax claim explanations are written by a director or key manager of the business, but one that can be understood by anyone in the business. Consider this as you write.

KNOW WHAT R&D IS – AND WHAT IT ISN'T

Don't make the mistake of Googling R&D and using this definition to word your claim. It just won't be the same as the definition HMRC has put on their website. If you don't consider this, then your claim can fail. And none of us want that.

For example, simply adding a new machine to your business isn't an eligible R&D tax claim. If you had

to make changes to other areas of the business to accommodate this new machine, then you are likely to have a claim. This is because of the time, effort and cost involved with embedding this machine into a production line – there may have been technical links to other machines, changes to the whole process or other factors that make this more than just installing a new piece of kit.

If you are going to submit your own R&D tax claim, then you need to know what R&D is (and what it is not) so you can steer clear of the dreaded HMRC enquiry. The more scrutiny on your claim, the more you are inviting for future claims.

GET THE NUMBERS RIGHT

The explanations look like the more complicated part of any R&D tax claim. But the figures must be right in order to keep the tax man at bay. A claim submitted well can be back in the business in a matter of only 6 to 8 weeks. One that doesn't quite feel right will take much longer as there will be a lot of questions to be answered.

If you think that adding a few extra pounds to a claim will make you a bit of extra cash, then think again. The tax man sees these claims every day and will spot inflated figures in an instant. Be honest, be accurate and put your food and drink business R&D tax claim in the best possible light. With the best chance of avoiding an enquiry.

Simply put, you should always remember to –

- Keep it simple
- Understand what HMRC defines R&D as
- Understand what HMRC defines as things that are not R&D
- Double check all the figures



WHAT TO DO IF AN ENQUIRY DOES COME YOUR WAY

Even with all the steps above, there may be the occasion when you receive notification that HMRC are conducting an enquiry. In a situation like this, it can feel like you don't know where to turn. Stay calm and follow our advice to make this as painless as possible -

DON'T GIVE UP

You have enough to do in your food and drink business. There are suppliers to keep happy, a team to motivate and sales to chase. So, you may feel like throwing in the towel. If you have worked out your figures and explanation properly then you shouldn't do this. Speak to the tax man in a cool and collected manner and back yourself!

Go back over your application. The first step to making this happen is to look back at your application and make sure you understand it -

- Did you capture all of the costs correctly?
- Did the description fully explain what you did?

Look at your application as though you were working for HMRC and analyse it in detail. If you find flaws, then make sure you have a sensible explanation for them. We can all make mistakes, so own up and put it right.

KEEP IT PROFESSIONAL

This is a pressure situation. There are no two ways about that. But HMRC are only doing their job, which is to protect the public finances. Don't think that this is something personal. And don't become personal with them. The best way to resolve an enquiry is to be professional at all times.

Don't get caught up in the emotion of the situation. If there are parts of your claim that are denied, then just accept that. You can learn from it and make the claim next year even better with the experience you have. Speak, ask questions and state your case professionally. It will bring results.

DON'T THINK YOU ARE ON YOUR OWN

Your food and drink business will take up a lot of your time already. Adding an enquiry to all of this might feel like a time pressure that you can't deal with. That's why we are here. Lean on our experience to deal with HMRC enquiry in the best way for all concerned. Just drop us a line to find out how we can help you with this.

Simply put, you should always remember to -

- Fight your corner
- Double check your application
- Stay calm and professional
- Seek professional help





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book a free building business workshop**

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