

The background of the slide is a close-up, high-contrast photograph of industrial machinery. A large, metallic gear is visible in the lower right, with a drill bit or similar tool positioned above it, creating a spray of sparks or coolant. The image is overlaid with a dark, semi-transparent blue filter, which makes the white and orange text stand out.

Innovation pays...

Transforming Manufacturing Businesses with **R&D Tax Credits**

White Paper - Feb 2020

Innovation in Northern Ireland

Northern Ireland has a long and proud history of inventors but there is growing concern that our best innovators are not accessing the financial support they are entitled to.

That reputation for innovation and invention continues to this day with Northern Ireland ranking fifth out of all the UK regions for R&D performance, according to the Knowledge Economy Index Report, which was commissioned by Catalyst Inc in 2018.

Achieving Catalyst's Knowledge Economy aspirations could inject £3 billion of GVA to the Northern Ireland economy by 2030 and add more than 80,000 jobs.

The Knowledge Economy is made up of individual companies that create, develop and commercialise new ideas, technical processes and export them around the world.

Catalyst is a community of innovators coming together in a next-generation science park with locations in Belfast, Derry-Londonderry and Ballymena. Over 3,000 engineers, researchers, entrepreneurs and executives from over 200 companies are part of its thriving network that aims to produce world-leading products and services originating in Northern Ireland (Source: Catalyst Inc, 2018).

R&D is vital to a productive economy. Firms that invest in R&D have around 13 percent higher productivity than those who don't invest. More specifically within the manufacturing sector, innovative companies have experienced a growth rate of 38 percent within the last three years, compared to 10 percent growth managed by the least innovative.

The message is clear, innovation breeds success.

Manufacturing – An Industry Overview

In 2018 manufacturing in the UK accounted for: 8% of jobs, 2.7 million in total, £191 billion of economic output, or 10% of the UK total, 42% of UK exports, worth £275 billion and 65% (£16 billion) of UK research and development spending.

In Northern Ireland, manufacturing generates annual sales approaching £20 billion, directly employing 80,000 people, supporting production and employment in a wider supply chain and creating jobs and strong communities.

Manufacturing in the UK has faced a tough operating landscape for a number of years

but as a result of this, support for the sector has become a priority for the Government with practical R&D help and indeed R&D Tax Credits.

However, at the start of this new decade there have been some green shoots of optimism for the industry.

In January 2020, the HIS Markit/CIPS UK Manufacturing PMI, which includes Northern Ireland, was revised higher to 50.0 from a previous estimate of 49.8.

The PMI (Purchasing Managers' Index) is an indicator of the prevailing direction of economic trends in the manufacturing and services sectors.

The latest revision brings the PMI to its strongest reading since last April which indicates a stabilising of the industry, following eight months of contraction.

Reasons for this include further clarity around Brexit, the General Election taking place and the full restoration of Stormont as well as future sales orders. With further reference to the General Election, the Conservative manifesto, should it be realised, will see a notable change in R&D Tax Credits. The R&D Tax Credit rate will increase from 12% to 13% for large companies to boost key sectors.

It's good news for SMEs too with the Tory manifesto also making a welcome pledge to review the definition of research and development so areas such as cloud computing and data are incentivised.

Supporting Research and Development is a government priority as it is a key driver of productivity growth. R&D investment enables companies to convert research into practical innovations.

This ensures that companies can continue to make use of the latest advancements in technology and benefit from the ensuing productivity gains.

Although the manufacturing industry accounts for the majority of R&D expenditure in the UK (65% or £16.3 billion in 2018), this is down from 84% in 1985.

Counteracting the effects of this trend has been one of the main focuses of UK industrial policy in recent years. For example, successive governments have supported the development of the Catapult Centre Programme.

These organisations and campuses seek to connect businesses, academics and industrial research so that technological advances can be more easily converted into commercial products or processes.

The proportion of R&D accounted for by manufacturing has declined in recent years.

In 1985, manufacturing R&D investment was 84% of total R&D, compared to the current total of 65%. The proportion of R&D spending accounted for by the service industries has seen a corresponding rise

over the same period, from 11% to 32%.

But with the industry on the cusp of a 'fourth industrial revolution' as it marches towards unprecedented levels of integrated automation, now is the time when an investment in R&D could pay dividends in future-proofing your company.

Investments in R&D are seen as important ways of building for the decade ahead with innovations in new equipment, products and processes along with investment in people and skills.

"Northern Ireland has a world class manufacturing and engineering heritage. Continuous innovation is crucial to ensuring NI companies are able to produce products and offer services that meet and exceed global customer needs and expectations for the future. Invest NI's R&D support, alongside the Government's R&D tax credit schemes, provides our advanced manufacturing and engineering companies with an excellent financial support framework to accelerate and leverage greater R&D investment. This in turn will lead to greater commercial and economic benefits for businesses and Northern Ireland."

Bill Montgomery, Director, Advanced Engineering and Manufacturing, Invest Northern Ireland

Rewarding Innovation: What are R&D Tax Credits?

The government has developed an incentive initiative that rewards companies investing in R&D.

R&D Tax Credits are a form of Corporation Tax relief designed to promote and encourage increased spending on R&D projects. This leads to a greater investment in innovation, and in turn ensures that the UK manufacturing industry continues to thrive.

R&D Tax Credits are the most generous and under-claimed form of Corporation Tax relief in the UK. It can be claimed by a range of companies; from SMEs to larger organisations, that conduct research or seek to promote development and advancement in their field.

Claiming is not restricted to white-coat laboratory activity or projects that have been successful. It is applicable to all research and development activity that relates to your company's trade with the intention of advancing technology or science, with the exception of social sciences and theoretical fields.

The definition of R&D varies from country to country. Many countries adopt the internationally recognised "Frascati method" for collecting and reporting on research and experimental development. This is a great source of information around R&D.

However for HMRC's R&D Tax Credit purposes, the BEIS guidelines (Department for Business, Energy & Industrial Strategy) advise that 'The activities which directly contribute to achieving this advance through the resolution of scientific or technological uncertainty are R&D'

To qualify for R&D Tax Credits within the BEIS guidelines, your company's application must explain how the project:

- *seeks to achieve an advance in science or technology*
- *has activities which directly contribute to achieving this advance through the resolution of scientific or technological uncertainty are R&D*
- *has certain qualifying indirect activities related to the project which are also R&D. Activities other than 'Qualifying Indirect Activities' which do not directly contribute to the resolution of the project's scientific or technological uncertainty are not R&D*

(Source: Gov.uk, 2018)

Successful claimants may be able to recoup substantial development costs by way of cash or credit for every year in which qualifying R&D activities have occurred.

R&D

Support for R&D spending is a priority in Northern Ireland with the Executive aiming to drive the country into the top four regions in the UK in terms of innovation by 2025.

Currently Northern Ireland businesses are spending £759.2 million on R&D but the target over the next five years is to raise this figure to £1.2 billion.

A total of £75 million was paid out to businesses in Northern Ireland in R&D Tax Credits during 2017-18.

To put the level of claims into perspective, HMRC figures showed that Northern Ireland companies claimed just 1.7 per cent of the total monetary funds paid out across the UK, representing just 2.7 per-cent of all claims.

Companies here are potentially losing out on tens of thousands of pounds.

Since its inception, The Momentum Group has helped its clients identify over £135+ million of tax benefits.

We believe the key reasons why Northern Ireland lags behind are: a lack of awareness of the research and development incentive's existence and gaps in understanding of what qualifies as R&D activity.

Our experience is that many companies in Northern Ireland could be carrying out R&D without even realising it.

Interestingly, the statistics show that local SME's are driving the growth in claims, accounting for 82% of Northern Ireland's total R&D Tax Credits.

This goes to show that there is support available for companies of all shapes, sizes and sectors and our mission is to work with them to help them get their slice of the millions that the UK government has made available.

According to the Chief Executive of Manufacturing NI, Stephen Kelly: "R&D Tax Credits encourage innovation in the manufacturing sector, enabling companies to thrive and look to the future with real confidence.

"Companies that are making appreciable improvements to new or existing processes, products or services in the manufacturing sector could be eligible for significant financial benefits for their innovation.

"It has been encouraging to see an increase in the number of claims being made but it is still surprising to see how many companies are missing out."

While HMRC statistics show many industries in the UK are waking up to the benefits of R&D Tax Credits, the potential is far greater. In our experience, there are still so many manufacturing businesses that are either not aware of R&D Tax Credits, incorrectly think they do not qualify or feel they lack the necessary experience to submit a claim. In fact, many companies are not claiming their full legitimate entitlement.

***Tom Verner,
The Momentum Group***

HMRC Statistics: How has the manufacturing industry benefitted?

Latest HMRC statistics show that the Manufacturing, Professional, Scientific and Technical, and Information and Communication sectors continued to have the greatest volume of R&D Tax Credit claims, making up a total of 68% of claims and 73% of the total amount claimed for 2017-18.

In terms of manufacturing, this R&D-intensive sector is still thriving despite a decline in its overall contribution to the UK's GDP. There has been a 31% year-on-year increase in total claims and overall claim values for 2017-18's partial data indicates this year will comfortably surpass full-year values from 2016-17.

While the new figures show a growth in the use of the R&D tax credit initiative by Northern Ireland businesses – successfully claiming £75m in 2017-18, by comparison, Scottish companies claimed £175m, Welsh companies £95m and English companies £3.9bn.

Finance Bill 2019-20: R&D Tax Credits lockdown

In late 2018, the Government announced plans for a cap on the amount that a loss-making company can receive in R&D tax credits. This level of rigour was re-introduced to the process to prevent the misuse of R&D tax credits and to ensure companies are provided with professional and strategic advice.

Successfully identifying projects that qualify for R&D tax relief requires considerable technical knowledge in improving product processes and systems, as well as an in-depth understanding of the legislation. In an unregulated area, involving complex financial review, working with an expert team is vital.

Manufacturing R&D Case Studies



"As an innovative company, Cimpina are always trying to push the boundaries in the projects we undertake. In 2015, a business associate of ours recommended that we look into R&D Tax Credits which we hadn't heard of before. As this was an area where even our accountants were unfamiliar with, we engaged with a local specialist R&D Tax Credit firm to review our business. Unbeknown to us, quite a proportion of the projects we are involved in actually qualified. These significant rebates year-on-year allows Cimpina to further develop our processes and take a risk in attempting new projects that have a level of uncertainty. In a competitive industry, where we aim to be the best at what we do, R&D Tax Credits have allowed us to expand our services, remain competitive and maintain and grow our staff."

Paul Hamilton,
Business Development Manager
Cimpina



"In uncertain times where the impact of Brexit and rising costs of doing business are top of mind for the manufacturing sector, it is imperative for firms to look at ways of being more competitive and increase their opportunities for international trade. In a manufacturing business, every action is designed around R&D activity creating new products and quicker, with better and more cost-effective outputs. The Government's R&D Tax Credit initiative is there to support that process and more companies should be using this opportunity to improve their business and their processes."

Stephen Kelly,
Chief Executive
Manufacturing NI

Analysis of the latest HMRC figures show that Northern Ireland businesses accounted for £75m of all R&D Tax Credits claimed across the UK for the year 2017-2018. However, this accounts for just 2.7% of the total number of claims on a national level and a mere 1.7% of the total monetary benefit claimed. Of the 1,310 Northern Ireland claims, 1,100 were claimed under the SME R&D initiative with the remainder claimed under schemes for large companies (RDEC). The average amount claimed by companies in Northern Ireland was £57,250, with the average for SMEs being £41,000. For SMEs, this represents an 11% increase in the number of claims and a 13% increase in the value of claims.



"In the waste and recycling sector we are continually focusing on safety and are actively looking for ways to reduce the risks to workers on waste collection vehicles. Research and development has played a key function in giving us clear foresight about future technological uncertainty that needs to be resolved. I believe research and development can be a catalyst for speeding up product and process growth and this has helped Macpac Refuse Bodies introduce innovative designs to produce better machinery into the market, bolstering our side loading waste collection vehicle range. Focusing on research and development has helped Macpac Refuse Bodies with its competitive edge and seeing the benefits first-hand; therefore, we've been able to recruit a specialised R&D member to further develop our products."

Drew Stewart,
Managing Director
Macpac Refuse Bodies

About The Momentum Group

Founded in 2009, Momentum is one of the longest established R&D Tax Credit advisory firms in the UK. It is also one of the only R&D tax credit practices that focuses on providing advice on long-term innovation strategies, offering a complimentary annual review to its client, enabling them to assess current and forward-plan future research and development projects.

Momentum has helped hundreds of highly competitive companies, from manufacturing to construction, food & drink to technology, to claim this UK government incentive. The team includes accountants, business, commercial and ex-HMRC technical experts to ensure every claim gets the necessary expert scrutiny and is thoroughly investigated. In addition, the Momentum Group recently announced a partnership with Manufacturing Northern Ireland, becoming its exclusive R&D Tax Credits partner.

Take the next step

For more information visit:
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