

PRODUCT DESIGN SCOTLAND TOOLKIT

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CAPTIALISING ON YOUR INVESTMENT

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Innovation incentives

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ABOUT US

With a long tradition of innovation, entrepreneurship and commercialisation, the product design sector is one of Scotland's key industries. Through advances in technology, designers are providing innovative products across a number of global markets, including healthcare, energy, communications and mobility. Integration of these technologies into viable, efficient and commercially attractive products is key, and the partnership between technology and product design is becoming ever more important.

Product Design Scotland, managed by Technology Scotland, the representative body for Scotland's Enabling Technologies Sector, has been established to support the product and industrial design sector in Scotland. The network aims to be the focal point for the community, raising awareness of the critical importance of design to future growth and competitiveness and creating a thriving, collaborative network to drive innovation.

By working with companies and organisations across Scotland, we support the sector through:

- Promoting the value of strategic design to government and industry
- Raising the profile of Scotland's product/ industrial design sector
- Increasing visibility of those operating within relevant supply chains
- Improving competitiveness through collaboration and knowledge exchange
- Creating new networks to shape the future of design in Scotland.



TOPIC INTRODUCTION

In this topic ForrestBrown will explore how you can utilise innovation incentives to recoup the costs of your investment in R&D.

Many businesses in the product design space will be familiar with R&D tax relief. For lots of organisations, this is a tried-and-tested way to fund experiments with new technologies, manage financial risks associated with innovation and ultimately grow a business.

Yet this incentive is currently undergoing a significant amount of change. HMRC are doubling down on their scrutiny of claims and the Treasury have announced multiple changes to both eligible expenditure and the rates of relief. Forthcoming changes to R&D tax relief in the UK will have implications for investment decisions and the location of R&D facilities in future. At the same time, tax regimes across the world are competing to attract inward investment.

In the current climate, it's therefore fundamental to factor innovations incentives into your business plan. The good news is that Grants, Patent Box and Capital Allowances can also be claimed alongside R&D tax relief which, combined, can generate substantial funding to propel your business forward.



R&D FOR PRODUCT DESIGN FIRMS

Product design activities involving R&D may revolve around the refinement or upgrading of existing products to improve functionality, performance or appeal; or to lower the cost of production for competitive advantage.

Examples of qualifying projects within the product design space include, but aren't exclusive to:

- ☑ Recreating an existing consumer product to match new regulatory requirements, whereby the current product design and manufacturing process is defunct.
 - ☑ Improving the design of existing products to reduce waste and improve yield.
 - ☑ Replicating an existing product with renewable materials to hit green targets.
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PRACTICAL CONSIDERATIONS

A common mistake made by businesses is to consider an R&D tax relief claim as solely a respective exercise. Yet the greatest value of an R&D claim comes from full preparation from the outset.

Consider the following questions when it comes to embarking on your R&D project:

ARE YOU SURE YOU UNDERSTAND WHICH OF YOUR PROJECTS COUNT AS R&D?

Familiarise yourself with the definition of R&D for tax purposes and ensure robust records of those projects are being kept. A regulated adviser can help you to identify your R&D projects and guide you on the records HMRC will want to see; record keeping in real-time will make for an efficient process when it comes to gathering the data needed to support your claim.

ARE YOU UP TO DATE WITH HMRC'S APPROACH AND THE NECESSARY CHANGES YOU NEED TO MAKE TO YOUR NEXT CLAIM?

Ensure your R&D adviser is keeping you informed of the ever-changing requirements to R&D tax relief. From rate changes to requests for supporting information, the Treasury and Government have announced a number of reforms and opened consultations which will impact your R&D claims in the future. If these changes come as news to you, more information can be found in ForrestBrown's knowledgebank.

DO YOU UNDERSTAND HOW YOUR BUSINESS PLAN WILL IMPACT YOUR FUTURE R&D TAX RELIEF CLAIMS?

The value of R&D funding can vary considerably based on the size of your business, grants received and the structure of your contracts with third parties. Discuss your business plans with your adviser well in advance of making them to ensure that they are implemented with minimal impact to your R&D claim.

DOES EVERYONE IN YOUR BUSINESS UNDERSTAND THE COMMERCIAL VALUE OF YOUR INVESTMENT IN R&D?

In most cases, the investment in R&D is made across the business. For this reason, it's important for the entire team to understand the value and impact that the claim will have on the business. Ensuring that your technical team understand why it's important for them to record information and communicate with their R&D adviser will help to ensure the full breadth of R&D is identified.

DO YOU UNDERSTAND HOW YOUR CONTRACTS AFFECT YOUR ELIGIBILITY?

Rarely are business contracts structured with R&D in mind, though these arrangements can have significant impacts on your R&D claim eligibility. In a recent case, HMRC considered R&D carried out to fulfil a customer brief to be subsidised by the customer, and therefore rejected the claim under the SME scheme. This judgement was overturned by ForrestBrown in a landmark tribunal, though HMRC have not changed their stance on this matter and more cases are expected.

This highlights the importance of ascertaining the relationship between subcontracted work and your R&D project, to ensure that there can be no dispute that the R&D belongs to you. Read more on this case to understand it's impact on your business [here](#).

IS PREPARING YOUR R&D CLAIM A PRACTICAL USE OF YOUR TIME?

For many business owners and finance directors, gathering the information required to submit an R&D claim is a dreaded exercise. Consider the support a regulated R&D adviser can offer. Not only will this save you a crucial amount of time, it will also ensure your claim is being prepared accurately and in line with [HMRC's latest guidance](#). More guidance on finding the right adviser for you can be found [here](#).

PATENT BOX RELIEF FOR PRODUCT DESIGN FIRMS

Patent Box relief is another Government innovation incentive which rewards your intellectual property (IP) investment by helping to reduce your Corporation Tax rate on qualifying IP income to 10%.

If you are yet to hold a patent, the first step is to consider where your IP can be protected. Technology Scotland members Scintilla are a firm of UK and European Patent Attorneys and UK Trade Mark Attorneys and offer a range of services to advise on IP strategy and management.

PRACTICAL CONSIDERATIONS

Patent Box should be considered by businesses who:

- ☒ are liable to UK Corporation Tax;
- ☒ hold or exclusively license-in a granted UK or European patent; and
- ☒ have undertaken qualifying development on this patent.

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FORRESTBROWN PROFILE

ForrestBrown is the UK's leading specialist innovation tax consultancy.

Our expert team of chartered tax advisers, chartered accountants, lawyers, former-HMRC inspectors and industry-experienced science and technology specialists provide unmatched specialist expertise to our clients.

We offer market-leading tax advice on UK innovation tax incentives to clients from a broad range of industries and sectors, from startups to multi-national businesses and from Cornwall to the Orkney Islands.

We're passionate about the transformative power of R&D tax incentives in driving UK innovation and supporting the growth of the economy.

As well as advising our clients, we play an active role in shaping R&D tax policy and lobbying for improved professional standards across the tax advice industry.

Delivering expert advice, building lasting relationships and acting with integrity are at the heart of our culture at ForrestBrown.



WANT TO KNOW MORE?

**PRODUCT DESIGN SCOTLAND'S FULL
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