



# potential tax strategies:

## engineering





## About This Sector

The strength of UK manufacturing is supported by extensive R&D and investment in capital infrastructure. The movement towards more automation and digitisation creates significant opportunities for tax reliefs and incentives for the taxpayer in this sector.

## Potential R&D Claims

Many companies are conducting qualifying R&D activities for R&D tax relief purposes in this sector on a daily basis without even realising it. What may seem as typical day-to-day challenges in the office and field may qualify. This may include developing new products, processes or services or duplicating existing products and processes in an appreciably improved way. The development does not have to be blue sky innovation; however, it is necessary for the company to demonstrate some kind of technical uncertainty in the work being undertaken.

Typical qualifying activities within this sector include but are not limited to:

- The development of a machine with a robotic arm which could handle extremely small components at a very high output speed.
- The development of an engine piston which had to be small enough to fit within extremely tight dimensions with virtually zero tolerance.
- The development of a nitric oxide and nitrogen dioxide burner for use in power stations which reduced emissions to below the level set by EU directives.

## Potential Capital Allowance Claims

Capital allowances enable commercial property owners to obtain tax relief relating to capital expenditure embedded within their building. Capital allowances on plant and machinery such as computers or equipment will typically be claimed in the tax computation already.

However, many businesses in this sector are missing out on valuable capital allowances available not only on commercial property owned for years, but also on the;

- Acquisition
- Refurbishment
- Construction; or
- Extension of commercial property

The value of capital allowances on commercial buildings can be as high as 60-85% of any construction or refurbishment price.



## Don't Lose Out!

Of course, the extent of the opportunity depends on the level of the specification. The main reason allowances are missed on the construction and fit out/refurbishment of the building is because of the lack of detail in the construction cost information provided by contractors. This information can consist of high level summaries of the works and it is difficult for non-specialists to break down and segregate these costs which can result in lost allowances. Typically, elements missed in the capital allowances claims include demolitions, alterations and finishes. Also, professional fees associated with plant and machinery on which we are claiming capital allowances are eligible but are easily forgotten.

In addition to this, there is a little-known capital allowances pool called Research and Development Allowances (RDAs). If it can be identified that the purpose of the expenditure on plant and machinery, buildings and IT equipment was for the purpose of R&D, 100% uncapped first year capital allowances can be claimed on this expenditure.

## What's Next?

If you need advice regarding your eligibility for R&D claims or other tax planning strategies, contact our Tax Partner today at [neill.staff@raffingers.co.uk](mailto:neill.staff@raffingers.co.uk) or call him direct on 020 3146 1605.

