



Combating COVID-19 with resilience

Cash Generative Opportunities via Global Investment & Innovation Incentives

April 2020



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IMPACT THAT
MATTERS**
since 1845

Combating COVID-19 with resilience

Helping businesses generate cash by making use of the UK Government's stated ambition to accelerate reliefs for Investment & Innovation Incentives



What should businesses be focused on and what can they be proactively doing in response to COVID-19

Securing refunds on taxes already paid or due

Businesses should consider making use of the UK Government's ambition to accelerate reliefs for areas such as R&D, Patent Box and Capital Allowances, with **HMRC prioritising issuing cash repayments** where these are due.

Reviewing historical claims to check if they have been optimised can trigger significant tax repayments, by refiling tax returns with uplifted, accelerated or first time claims.

Businesses can look back over the last two accounting periods for R&D and Patent Box, and further back for Capital Allowances expenditure (subject to the company still owning the asset).

Consider undertaking more detailed work to **revise any prudent estimates made or advancing the preparation of claims** for Patent Box and Capital Allowances claims for recent expenditure to reduce quarterly instalment payments.

Pursuing tax credits and grants

R&D cash tax credits are available for both large businesses and SMEs that are not in a tax paying position, to provide a cash injection.

The UK Government's increase in the R&D Expenditure Credit ("RDEC") rate to 13% gives loss making businesses claiming under the large R&D scheme access to an effective tax repayment of 10.5% for new expenditure from 1 April 2020.

Loss making businesses should also consider whether they have taken advantage of **tax credits payable in cash for Enhanced Capital Allowances and Land Remediation Relief**.

Innovate UK continue to support businesses with up-front grants. There may also be the ability to access funding from the EU via Horizon 2020 and other similar European grant initiatives.

Preparing for the next normal

Many businesses will continue to make significant investments in capital projects and R&D as they adapt to meet new challenges, and they should **plan ahead to ensure future claims can still be optimised** and are not compromised by the disruption.

Proactive steps can be taken to **adapt and enhance existing processes** to ensure optimal data can be captured contemporaneously from both internal and external sources.

Consider whether available **tax technologies can enable groups to gain broader coverage** over their qualifying expenditures and track activities with more efficiency, visibility and control, to optimise incentive claims. This may be particularly relevant where remote working is likely to be part of the new normal.

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Securing refunds on taxes already paid or due

Innovation Taxes

- **Retrospective reviews.** A review of historical claims filed may generate additional cash repayments. A company has two years from the end of its accounting date to amend a claim for R&D relief or Patent Box. First time claimants can review their activities across the previous two years and the year to date to file and claim the cash benefit.
- **Real time claim preparation.** Many companies are advancing the preparation of their R&D and Patent Box claims to ensure timely access to the benefit of the regimes to unlock cash and increase liquidity. In some instances, this also has the benefit of aiding cash flow when estimating tax payments.
- **Case studies:** A company that historically prepared its R&D claims in-house is reviewing its methodology and data to identify opportunities to enhance its claims. We expect a significant increase in prior period claims which will trigger a repayment of taxes already paid for the 2018 and 2019 periods.
- A large group that has not prioritised Patent Box claims to date is now in the process of doing so, which should trigger a repayment of c.£1m in taxes already paid for the 2018 and 2019

Tax Depreciation

- **Retrospective reviews.** Improve historical or estimated claims to both generate refunds of tax already paid and reduce future tax liabilities. Provided businesses still own assets in question there is no limit on making capital allowances claims in current tax returns for historical expenditure. Data analytics software can make this task less onerous.
- **Accelerate tax deductions in open returns.** Identify opportunities to accelerate available reliefs (e.g. from 8/6% Writing Down Allowances to 100% First Year Allowances for Enhanced Capital Allowances to trigger a cash tax repayment for the open year. Similar acceleration is available for R&D Allowances and Land Remediation Relief.
- **Real time reviews.** Provide support for reducing quarterly instalment payments by identifying tax relief due during the financial year.
- **Case study:** Retrospective review of £50m annual capex identified 5% under claims over prior 10 years. £25m of additional tax relief identified to secure tax repayment and increase future relief.

Pursuing tax credits and grants

Innovation Taxes

- **Research and Development Expenditure Credit.** Loss making businesses claiming under the Research and Development Expenditure Credit regime can claim cash repayment worth c£100k for every £1m of R&D spend.
- **R&D credits for SMEs.** Loss making SMEs can claim tax credits worth up to £333.5k for every £1m of R&D spend.

Tax Depreciation

- **Land Remediation Relief.** Can yield 150% relief for capital or revenue expenditure which loss making businesses can surrender in exchange for a tax credit equivalent to 24% of the expenditure.
- **Enhanced Capital Allowances.** Available for certain energy and water efficient technologies (up to 31 March 2020). 100% first year relief (as opposed to 8/6%). A cash tax credit is available to loss making businesses equivalent to two thirds of the applicable corporate tax rate.
- **Increasing R&D cash back.** Claiming capital allowances to increase tax losses can positively interact with the R&D tax cash back available where the latter is otherwise restricted.

Grants

- **Grant support for existing businesses.** The UK Government has announced a series of grants to support small businesses and those in the retail, leisure and hospitality sectors. The grants will be worth between £10,000 and £25,000, and will be distributed via Local Authorities.
- **Regional grant packages.** A series of packages of support have recently been announced in Scotland, Wales and Northern Ireland which provide additional support over and above that announced by Central UK Government. The type of businesses eligible and details around the scheme criteria and application process are still awaited.
- **Growth orientated projects.** If you are considering a project linked to a major increase in R&D, manufacturing and /or employment growth, an additional package of assistance might be available.
- **How to keep up to date with changes in incentives.** Deloitte produces a daily update of all loan, grant, rate and other benefits announced as a result of Covid-19. The link can be accessed and you can register to get regular updates. <https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-government-funding-response.html?nc=1>

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Accessing immediate cash generative opportunities

In the current environment, optimising and advancing cash saving opportunities will likely require navigating a number of practical challenges. In response, businesses may wish to consider the following positive actions to help expedite claims and repayments.

Processes

- As a first step, identify relevant **cash generative opportunities** and **prioritise** those which are expected to be most impactful. This may involve advancing normal timelines for the delivery of key projects to access cash sooner.
- **Establish a clear understanding of the steps** involved in accessing the available reliefs, including revising timelines and the mechanics of how claims will need to be filed.
- **Consider the use of technology** to ensure businesses have sufficient oversight of project progress and results and aid the delivery of projects whilst teams are working remotely. For example, using technology solutions to carry out the remote surveys needed to secure R&D credits.

Data

- **Establish the information requirements** for reviews. Even where there is missing information, it is often possible to **bridge data gaps** with assessments and extrapolation techniques.
- Establishing the availability of **data from third parties** so that it can be collated as soon as is practical. This may avoid challenges collating data where project teams may have been disbanded.

People

- Devise an approach that minimises input needed from key personnel, **limiting disruption to critical staff**.
- Anticipate and **prepare for changes in staff availability**, where possible accelerating and prioritising conversations with staff prior to any planned absences.
- Consider arranging **direct liaison** between your advisors and other teams and/or suppliers.

Preparing for the next normal

As businesses move forward and continue to invest in capital projects and R&D, there are likely to be material cash tax savings opportunities. To **ensure all value is identified**, it is important to plan ahead and put in place processes to mitigate the inevitable distractions caused by COVID-19.

Key challenges

- Businesses may experience a diversion of resources, changes to their day-to-day operating models and an adjustment to the nature and profile of expenditure.
- Remote working may lead to challenges in respect of the following:
 - Visibility and control of teams (both internal and external advisors)
 - Collation of data from disparate sources.
 - Progress updates.

Key opportunities

- Adopt learnings from earlier projects to **identify potential challenges and consider how best to adapt processes** to build more robust systems to navigate these issues.
- **Advance the identification of projects** or opportunities with the potential for incentive based claims.
- Consider changes in the nature of investment and/ or tax profile which might present new opportunities. For example, has there been increased R&D activity? Or does a change in tax profile enable tax credits to be claimed?

Technology

- We expect an **increased movement towards the use of technology** to track activities, widen the reach of automated surveys and analyse a broader base of expenditure, to optimise incentive claims.
- For each challenge, consider whether technology solutions might be available to help build more robust processes. For example, to enable a more real time tracking of projects.



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