

R&D tax credits support engineering and design in long established industry

VT GROUP PLC

Support services and shipbuilding
Hampshire

13,000 staff worldwide

2005–06 Turnover £800m

2005–06 R&D £1m

www.vtplc.com

The company

The VT Group, based in Hampshire, is a major support services and shipbuilding group supplying services and products to governments, government agencies and businesses worldwide.

The VT Group has its roots in two shipbuilders, Vosper and Thornycroft; both started out in the 19th Century. The two companies merged in 1966, and 22 years later Vosper Thornycroft was floated on the London Stock Exchange.

In 2002 the company changed its name to become VT Group plc – a move driven by its diversification programme. The VT Group now employs over 13,000 people worldwide.



The annual report ending 31 March 2006 showed a turnover of over £800m with an R&D expenditure of £1m. The R&D as a % of group sales was approximately 1%

KEY ISSUES IN THIS CASE STUDY

- ▶ Involved HM Revenue and Customs during entire claims process, to address potential contentious areas
- ▶ World's largest single-masted yacht needed very significant qualifying R&D
- ▶ Use own engineering and design staff to identify significant technological advances

due to the level of support services income generated by the Group. The main area for the R&D claim is the Shipbuilding division. This division offers a total solutions approach, including vessel design and development, systems' integration, and construction in state-of-the-art facilities.

Making a tax credits claim

Stuart Hellyar, Head of Taxation, commented: "We found out that we were eligible for the R&D tax credits through media coverage, budget announcements, publication of the Finance Bill and presentations by external professional advisors. We...

- ▶ performed a review of our largest contracts
- ▶ split these contracts into internally funded R&D and externally funded R&D
- ▶ looked at VT's role in each of the contracts from design, construction, support, project management etc and determined whether we were the prime contractor or sub contractor."

Ensure correct costs coding

"The external professional advisors provided us with guidance in collating all the necessary information. Provided that costs are correctly coded for each project it was a fairly simple process capturing the R&D information on the qualifying projects."

Involve HMRC throughout claim process

We have involved HM Revenue & Customs (HMRC) during the entire claim process. We invited HMRC to visit our sites and presentations were made to the Inspectors by the technical, operational and finance teams during the claim process to ensure that any contentious areas were addressed as they arose.

Given the size and complexity of the VT Group, presentations were held with each of the divisional heads of finance to ensure that going forward the correct means of data capture was in place and to draw their attention to the benefits of enhanced R&D tax relief."

The benefits

"The VT Group qualifies for R&D tax relief under the large company scheme. Not all historic R&D claims for the Group were submitted with the annual tax return as we wanted to take the time to get the claim right. The largest R&D claim prepared is for the periods ended 31 March 2003 and 2004 in respect of the new "Mirabella V" which is the largest single masted yacht in the world and is recognised as representing a major advance in boat building technology. The claim totals some £12m of qualifying R&D spend. This claim is worth approximately £0.9m to the VT Group as a direct reduction in its liability to corporation tax."

Capital allowances often overlooked

The VT Group is fully aware that it can claim 100% capital allowances for its R&D based capital expenditure. Stuart added: "I understand this is often an area that is overlooked by other companies, but it is an important area in managing cash-flow by optimising the temporary differences on R&D fixed assets."

Advice to newcomers

Stuart's advice to newcomers is: "Identify those projects which may qualify for R&D tax relief at an early stage. Code the expenditure correctly so that the costs can be collated at a later stage (even if after further analysis it becomes apparent that the costs do not qualify for R&D tax relief). It is easier to have coded the costs for data capture as they are incurred rather than locating where the costs have been coded at a later date when the project might be complete and the individuals involved are focusing on new challenges."

Recommendations to other companies

Use own staff to identify technological advances

The VT group would encourage all companies which incur qualifying R&D expenditure to make a claim on their tax return. Stuart suggested: "Speak to your engineering and design department to get their views on the design process. Is the work making a significant advance in your industry, is it new to the world or ground-breaking? If so, capture these costs and any other costs associated with the process that are not incurred by the engineering and design department. Produce a summary schedule explaining the types of projects the company is undertaking."