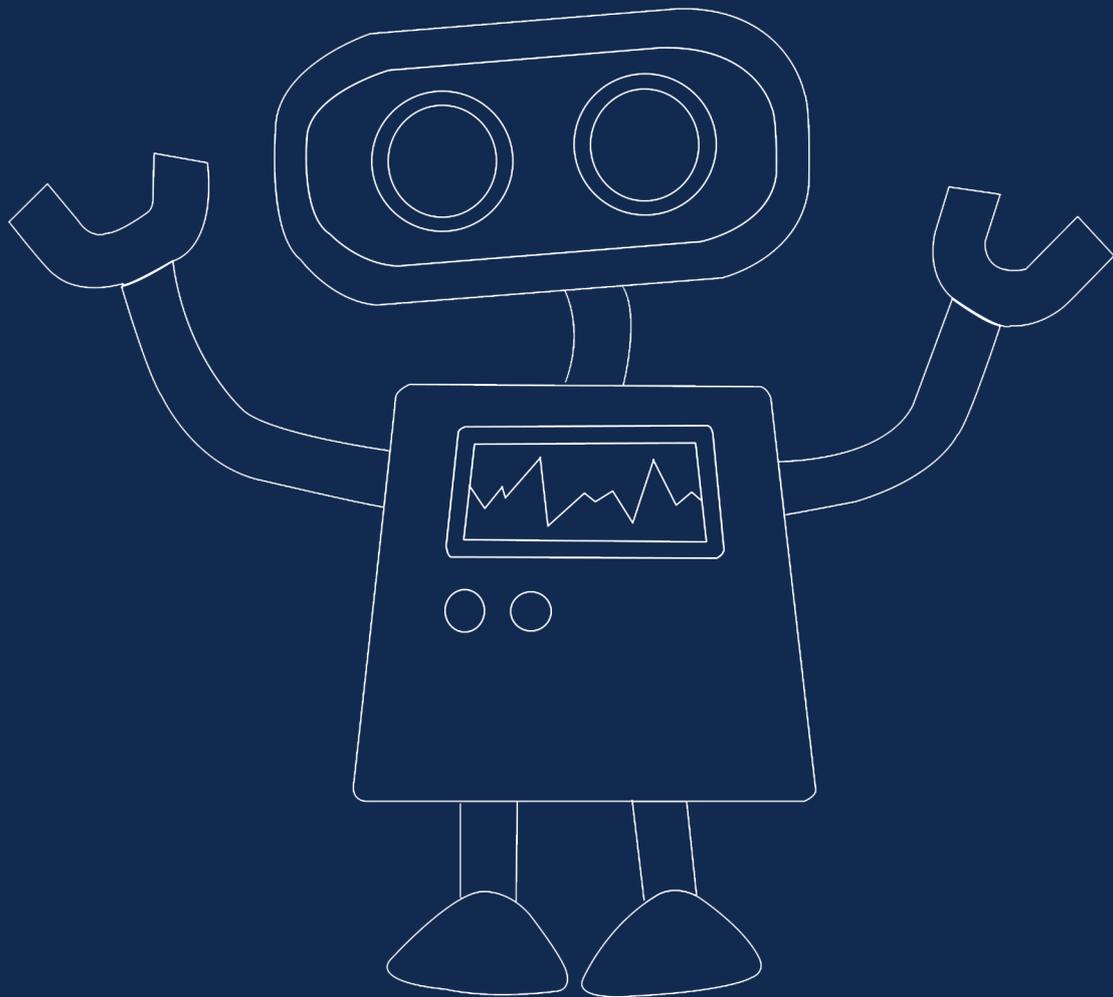




potential tax strategies:

software and IT





About This Sector

Companies with technology at the heart of their business, such as software development companies and technology start-ups, often undertake significant technical development on their products or processes. In an industry where technology moves forward at an unprecedented rate, companies in this sector are often faced with a number of technical challenges and complexities when developing their products. Typically, development involving the use of existing technology with minimal improvements or technical challenges, would not qualify for R&D tax relief e.g. simple configurations or straightforward integrations of off-the-shelf products. However, where businesses are creating, utilising, amalgamating or significantly extending technologies in an improved and innovative way, may mean that qualifying R&D is taking place. This creates opportunities for tax reliefs and incentives for the taxpayer.

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:

- Developing completely new technical features and functions which are currently unavailable.
- Utilising technology in a completely new way i.e. using in a new industry/application which is technically challenging to achieve.
- Integrating applications which haven't been previously brought together to create a new system which is technically challenging.
- Creating new software development tools/ environments to improve the speed of development.
- Using technology to improve efficiency e.g. reducing processing power in a new way.
- Development of a new platform, incorporating a unique combination of technologies and/or methodologies.
- Working with emerging technologies whereby little or no documentation is available.
- Complex and unique integrations of hardware and software.
- Development of a completely new data warehouse system with features far superior to existing warehouse systems.



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 and fixtures and fittings such as desks, chairs, computer and other office equipment, will typically be claimed in the tax computation already.

However, many businesses in this sector are missing out not only on commercial properties that they have owned for years, but also on the;

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

Capital allowances are often extremely valuable in this sector. In fitting out your office space there may be expenditure incurred on suspended ceiling work, mezzanine flooring, data cabling, infrastructure, innovative technical solutions, high spec features, building layouts and perhaps specialist flooring. Typically, qualifying features include; fire alarms, security installations, mechanical ventilations, electrical systems, heating, lighting, air conditioning, lifts, builders work in connection with mechanical and electrical services, acoustic and thermal insulation, demountable partitions, strip out of plant and machinery during refurbishment works within existing buildings and more. The typical value of capital allowances in office space is between 30% to 80% of the purchase or refurbishment price. Of course, the extent of the opportunity depends on the level of the specification.

Don't Lose Out!

The main reason allowances are missed on these properties is due to the lack of detail in the construction cost information provided by contractors. This information can consist of high-level work summaries which are very difficult for non-specialists to break down and segregate, resulting in significant lost allowances. Often elements are missed in the capital allowances claim such as demolitions, alterations and finishes. Furthermore, professional fees associated with plant and machinery on which we are claiming capital allowances can be included but are easily forgotten.

In addition, there is a little-known tax relief called Research and Development Allowances (RDA's). If it can be identified that the purpose of the expenditure on plant and machinery, buildings and IT equipment was for the purpose of Research and Development, then 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 or call him direct on 020 3146 1605.