ITAX ADVISORS | R&D Tax incentive *specialists*

R&D TAX INCENTIVES FOR THE BEAUTY AND COSMETIC INDUSTRY

BACKGROUND

The cosmetics and personal care industry is highly innovative and plays a leading role in product development.

With changing consumer demands for products that are personal to them, influenced by factors such as age, gender, ethnicity, religious belief, etc, cosmetic companies are continuously pushed to develop new or enhanced products to meet these demands.

Additionally, with consumers now being more resource conscious than before, there is an expectation that the products they use are derived from sustainable materials and methodologies, further driving R&D within product/packaging and process development.

GENEROUS GOVERNMENT INCENTIVES ARE AVAILABLE FOR COMPANIES UNDERTAKING R&D THROUGH SCIENCE OR TECHNOLOGY

BENEFITS AVAILABLE

For **Small and Medium-sized entities** (SMEs) a super-deduction of 130% (**86% from 1 April 2023**) on eligible costs is available.
This translates to a benefit of 24.7% for a company paying tax at 19% (**16.34% from 1 April 2023 or 21.5% for a company paying tax at 25%**).

For loss-making companies, there is an option to surrender up to 14.5% (10% from 1 April 2023) of the R&D expenditure and related super-deduction to HMRC, in return for cash (subject to a cap).

For **large companies,** a taxable credit of 13% (20% from 1 April 2023) on qualifying development costs can be claimed.

There is a **separate scheme for capital expenditure**, whereby R&D Allowances (RDAs) at the rate of 100% can be claimed for assets used in R&D or for providing facilities for undertaking R&D.

EXAMPLES OF ELIGIBLE ACTIVITIES

Development of new or appreciably improved products/formulations

Eligible activities can include:

- investigations into the use of alternative ingredients;
- experimentation with different organoleptic properties such as colours, smell and texture;
- development of enhanced techniques to overcome physical/chemical product constraints, as well as constraints around product stability and performance;
- development of new or enhanced product ranges - for example, a preference for 'free from' products has driven substantial product development in the sector.

Packaging development
The drive for the use of sustainable materials and methodologies within packaging, as well as other factors such as the continued efforts into enhancing product shelf life is driving significant development for suitable packaging.

Testing and prototyping
Eligible activities include testing, trialing and prototyping, to resolve scientific/technological uncertainties, to derive products and processes that comply with the stringent regulatory requirements of the industry;

Process development

Whilst a product may successfully be developed within a laboratory environment, scaling this up on the production line can be challenging and require numerous batch trials before a consistent product can be produced. Additionally, the drive to enhance product or process efficiencies, produce products at lower cost, increase output per unit etc can drive significant process development.

Broad Broadly speaking, if the experts in your company are faced with challenges they are unable to readily resolve after leveraging on information available in the public domain, there are high chances that these activities will qualify for R&D tax incentives.

WHAT COSTS CAN BE CLAIMED?

Eligible costs broadly relate to the following:

- **Staffing costs**
- **Externally Provided Workers (EPWs).** These are payments for 3rd party contractor personnel or for group personnel working under your company's supervision, direction and control.
- **Software and consumable items** (materials used in undertaking R&D). The costs of water, fuel and power may also be included.
- **Payments for subcontracted activities** (restrictions apply for large companies).
- From 1 April 2023, the following costs may also be claimed:
- – **cloud computing costs** attributed to computation, data processing and software;
- – **licence payments for datasets**.

CONTACT US TO BOOK IN A DISCUSSION

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