



TAX INSIGHT UK

Business as usual –

Brexit planning for R & D

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Tax for Innovative Companies

Maria Kitt, Tax Partner at Tax Insight UK, looks at Brexit tax planning for R & D companies.

Pre - Brexit planning is critical for innovative companies; whilst some industries are in a special situation, others will thrive in a global marketplace. In April 2016, the UK government promised the Parliamentary Committee for science it would guarantee pound for pound investment in innovation and science*. Nothing has changed and tax reliefs will continue, some assurance for businesses facing commercial Eurozone uncertainty or adverse currency movements.

Investment in the innovative economy has been a strong feature of UK growth over the last two decades and it is no coincidence that R & D tax reliefs have accelerated in tandem.

Current UK R & D Reliefs

We have seen progressive increases in the value of the tax relief in each of the last eight years. Currently, UK R & D Reliefs can provide up to 34% 'cash back' for innovative companies, whether or not their investment in R & D is technically or commercially successful. In addition to the mainstream 'tax credit', the UK also provides parallel reliefs for the Video

Games industry and TV and animation sectors within the Creative Sector. Unsurprisingly, record numbers of companies applied for £2.9 bn + of 'tax credits' in 2016 from a broad range of industries.

International R & D considerations

Helpfully, UK R & D tax reliefs have an international outlook. This is very useful in the Brexit era and means:

- UK Companies can carry out R & D operations anywhere in the world
- Labour costs are deductible on an international basis, meaning UK companies can access cheaper labour markets without compromising relief funding
- Relief includes expensive travel costs and almost any expenses reimbursed to technical employees again irrespective of where the R & D is carried out.
- Special UK rules also enable full relief for R & D machinery and fixed assets, including company cars.
- The UK does not require a relief company to exploit intellectual property locally – again this can be exploited anywhere in the world
- Anyone who thinks they can claim can include the past 3 years' accounts.



Patent Box, low tax models

Some tech incentives need more urgent remodelling. Ironically 2017 /18 sees the arrival of the full rate of UK Patent Box reliefs. These provide a 10% tax rate upon income derived from UK or European Patent Office registrations. This must adjust to follow US / Asian and alternative post EU marketplaces. The UK has retained a 'low' corporate tax rate since the mid-nineties. Again, it is expected that this will need to feature heavily in the post Brexit UK regime if R & D companies are to continue their growth.

More cash, less red tape?

A newly modelled R & D tax code could have distinct regulatory advantages over and above its European counterparts. The current UK R & D tax code is bound up in and derived from complex European legislation, and European State Aid Regulations to counter anti competitiveness between EU member states. Recently, the UK was forced to pass disclosure regulations meaning that HMRC must publish details of relief claimants. Similarly EU State Aid rules prescribe unwelcome 'project cap' legislation limiting R & D funding to Euro 7.5m per project.

The alignment of the UK relief to EU legislation is similarly problematic where growth

partners and investors assist SME RD as HMRC will apply the lower large company relief rate where the EU SME linked / partner organisation rules apply.

Plan ahead - now

Tax planning for pre and post Brexit uncertainty can begin now and include:

- Ownership location - A flexible corporate structure – UK reliefs can only be claimed by a company managed and controlled in the UK.
- Intellectual property management - helpfully, UK tax reliefs can still be claimed on a global IP basis.
- Pharma / life science - Maximise reliefs on contributions to academic research programmes (now).
- Review the efficiency of labour markets i.e. cost / relief
- Maximise current Patent Box reliefs and consider claims for prior years' reliefs
- Manage taxable currency gains efficiently

We advise innovative companies upon their special situation and how to maximise tax incentives and reliefs.

If you would like to discuss any of the above, please contact any of our tax partners today.

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