



BLOG - RDTR Changes: A single RD tax relief incentive scheme?

On 13 January HM Treasury's Consultation on a Single RDTR Scheme was opened for comment, this follows the December Budget speech. Since the RDTR schemes were first introduced, there have been more legislative and consultative changes to this set of tax incentives than any other piece of corporate tax legislation. MARIA KITT identifies key concerns and asks, if, 22 years after the schemes were first introduced, we should return 'full circle', back to the original single incentive.

In the recently published *Consultation upon a single rate of relief for UK RDTR incentives*, HM Treasury are seeking views from stakeholders upon a singular RDEC style relief, replacing the current 'SME' relief:

Consultation - Main features: Questions

Do you agree a new scheme should be an above the line RDEC like credit? If not, what alternative would you propose?

Does the taxability and subsequent different post tax net benefits impact your decision making when allocating R&D budgets?

If you use RDEC now, is there anything in your view that should be changed?

Background, UK RDTR to date.

The 'dual' RD relief schemes arrived in 2002 with legislation that attempted to encourage SME company incentives. This broadened the initial 2000 legislation introducing the main UK RD scheme (for large companies). In turn these Acts evolved further the forerunner specialist 'science allowance' legislation of the 1980's which were claimed solely by 'large' companies and limited the relief to large corporate 'paper' losses rather than cash 'tax credits'. The SME schemes were popular and seen as crucial to economic RD growth; following the deep reaching 'Dyson Review' in 2012, SME incentives grew again in popularity & generosity from FA2013.

Inward investment in UK R & D has followed this pattern but has deeper economic contributors, but it can be concluded from the HMRC R & D Statistics' annual reports that SME activity has dominated the UK R & D tax incentive scheme and changes in the rates of relief strongly stimulated SME R & D activity.

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Comment 1 - UK science & technology skills have been driven strongly by SME companies who are critical economic contributors, creating UK science & technology jobs.

The UK is unique in having two distinct rates of RD relief depending on the size of company (usually defined by a 500 employees cap). No tax reliefs are possible for non corporate entities. It is right that there is now some consideration of how effective this has been and what, if any, remodelling needs to take place to continue to make the reliefs retain incentives UK science & technology. First we need to ‘understand’ UK R & D and how incentives work in practice.

Sitting in the Science Research and Technology Park, I see thousands of innovative companies, particularly small ones, begin to grow into commercial companies with a huge array of scientific or technological excellence. Predominant in their growth, is reliance on generous RD tax incentives to continue valuable research projects or development work, and a relatively ‘low tax’ model. Many clients say to me that is these incentives alone which are a huge factor in recruiting more staff and creating science and technology careers for young people. The UK becomes equipped with high value, skilled scientists & engineers furthering the UK as a hub of small and large R & D. For larger RD companies based in the UK, the staff: science / technology growth is different, often large UK companies have multi national ownership and staff are brought in from a worldwide pool. Obviously, the UK sits in a global science & technology space but the enormous contribution of UK SME R & D to UK employment in science and technology sectors cannot be understated. The tax incentives have gone hand in hand with job growth, university placements and SME growth in UK science parks. This talent set is crucial to UK RD growth.

Comment 2 - Effectiveness of the SME tax incentive across UK R& D growth

UK economic R & D growth is dominated by SME companies, this should only be encouraged, see the ‘Innovation Nation’ envisaged by the UK Industrial Strategy. Looking at the growth of UK science & technology companies in UKSPA, office and laboratory space is typically up to 93-98% capacity and dominated by SME activity. The progressive increases in demand for UK SME tax incentives have been no coincidence:

HMRC RDTR relief claims 2000 - 2021:

Financial Year	SME Total	LC / RDEC
2000-01	1,860	N/A
2001-02	3,410	N/A
2002-03	4,640	690
2003-04	5,160	1,050
2004-05	5,310	1,310



2005-06	4,960	1,490
2006-07	5,270	1,670
2007-08	5,990	2,030
2008-09	6,670	2,260
2009-10	7,470	2,320
2010-11	8,280	2,490
2011-12	10,030	2,660
2012-13 [RDEC introduced]	13,140	2,960
2013-14	15,585	3,750
2014-15 [SME rate increased]	29,775	5,785
2015-16	37,105	6,560
2016-17	45,440	7,575
2017-18	53,910	8,380
2018-19	65,940	8,595
2019-20	73,605	9,805
2020-21	78,825	10,475

Gross value of reliefs

£4.23m

£2.36m

As the UK's RD statistics show, the two milestones in FA 2013 which introduced the RDEC scheme for large companies and FA 2014 which greatly enhanced the SME tax credit illustrate it is SME companies rather than larger ones which are responsive / 'elastic' in their response to tax incentives - see also SME business incorporation rates.

Comment 3 - A situs or sector based approach to relief.

I have long been a proponent of a greater incentive for companies based on a UK Science Park. As the number of 'innovative' rather than 'science / technology' based claims cause concern at HMRC, and frustrate incentives for genuine R & D performers, this seems a natural 'anti-avoidance' type of protection. The incentive also needs to cover R & D activity in 'technology' based sectors in the field; engineering & industry and digital companies whom are not based on science parks. A distinction between 'pure' R & D based on science parks and 'applied research / development (in industry) is feasible and would help provide further 'evidence' of R & D to HMRC.

Comment 4 - Scheme cost and complexity

There is no doubt that, in its current state, the UK legislation derived as it is from EC Regulations, several Finance Act amendments, case law and the base Corporation Tax Act 2009 prescription, is complex. Added to the State Aid grant prohibition of duplicate reliefs, PAYE caps and the concepts of 'subsidised or subcontracted' for



certain types of RD activity, change is needed. HM Treasury initiatives have cut through this complexity and ‘popularised’ the scheme but now the cost of the scheme is stretched by artificial, incorrect or simply abusive claims.

The overarching objective must be to protect whichever scheme is adopted from abuse and misinterpretation; with good ‘publicity’ and drafting: the complexities which serve to prevent duplication of relief, can hopefully be diminished.

Comment 5 - Subcontracting anomalies

A singular scheme would presumably simplify the anomaly whereby an SME company may engage multiple subcontractors to perform its RD but the large company must ‘directly perform’ subject to limited exceptions, its own RD or face a constriction of costs.

UK RD works on the basis that initial ‘low cost’ research / development often carried out abroad, is crucial to the commercialisation of pre-income R & D. Therefore the recognition of global ‘subcontracting’ is key enabling initial ‘loss-makers’ to sustain their economic activity pre-market.

‘UK Science Super Power’

In conclusion, the perceived ‘UK as a science super-power’ framing the current RD tax incentives and reliefs, must be a collective concept for companies of all size. It should be taken from the *whole* of the UK science & technological sectors and recognise the importance and crucial contribution of SME companies that currently dominate the sector as contributors.

Consultation chronology

- Consultation starts 14 January 2023
- Consultation end 13 March 2023
- Legislative change (without consultation) applies to expenditure on or after 01 April 2024.

Do get involved!

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128970/20230113_R_D_Consultation.pdf?mkt_tok=NTlwLVJYUC0wMDMAAGJYt4SxfZN7vP5YLrw3grONnNvuHUQSw8MwZJAWL3VjDQtb2M5HZ4w9QdZO8t_sED5wjJGvQysd4LM8J53YP0zJFmcXvakDsfxHWuFL6U0zqFsRdnGA

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