# House of Lords Economic Affairs Finance Bill Sub-Committee:

# Research and Development Tax Relief and Expenditure Credit (HL Paper 137)

# Government Response

# 1. Introduction

The Government thanks the Committee for its report on its inquiry into the R&D tax reliefs, and notes its conclusions and recommendations.

Science and innovation are two of the UK's greatest strengths. With less than 1% of the world's population, the UK hosts three of the world's ten best universities, has produced up to 13% of the world's most impactful research and has the second highest number of Nobel Laureates of any nation. The UK also ranks fourth in the Global Innovation Index.

These remarkable achievements in R&D and innovation generate significant economic and social benefits for the whole of the UK and beyond, such as unlocking improvements in the health, wellbeing, prosperity and security of our citizens and communities. The OECD have estimated a 1% increase in an economy's total R&D increases the level of multifactor productivity by around 0.15%, and that the social returns on R&D investment outweigh the private returns by a factor of four to one, underlining its public value[1].

In light of this, the Government remains committed to enhancing support for R&D. At the Autumn Statement 2022, despite the fiscal constraints, the Government recommitted to increasing public expenditure on R&D to £20 billion per annum by 2024-25. This represents a cash increase of around a third and is the largest ever increase in public R&D budgets over a Spending Review period.

It is important that Government support for R&D is spent well. At the Autumn Statement 2022 the Chancellor also announced that, as part of the ongoing R&D tax reliefs review, the Government would reform the R&D tax reliefs to ensure taxpayers' money is used as effectively as possible to support innovation.

As part of these reforms, for expenditure from 1 April 2023 the Research and Development Expenditure Credit (RDEC) rate will increase from 13% to 20%, the small and medium enterprise (SME) additional deduction rate will reduce from 130% to 86%, and the SME payable credit rate will decrease from 14.5% to 10%.

The Government also committed to considering the case for further support for R&D intensive SMEs, and from 1 April 2023 the Government will introduce an increased rate of relief for loss-making R&D intensive SMEs. Eligible companies will receive £27 from HMRC for every £100 of R&D investment. The Government remains committed to supporting R&D, and recognises the hugely important role that R&D and innovation play for the economy and society.

To effectively target this support, loss-making SMEs with an R&D intensity of at least 40% will be eligible. The delivery of this support is modelled on the existing SME scheme.

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1 Guellec, D. and B. van Pottelsberghe de la Potterie (2003), "R&D and Productivity Growth: Panel Data Analysis of 16 OECD Countries", *OECD Economic Studies*, vol. 2001/2, https://doi.org/10.1787/eco_studies-v2001-art12-en
Lucking, Brian, Nicholas Bloom, and John Van Reenen. "Have R&D Spillovers Declined in the 21st Century?" Fiscal Studies 40.4 (2019): 561-590.

As you are aware, the restrictions on overseas expenditure that could qualify for the reliefs were planned to come into effect from April 2023, in order to refocus the reliefs towards innovation in the UK. This change will now be implemented from April 2024, allowing the government to consider the interaction between this restriction and the design of a potential merged R&D relief.

HMRC takes error and fraud very seriously. There is a threat risk assessment programme in place for all claims. However, despite this, the SME scheme's generosity had become a target for fraud. The measures in the Finance Bill will help address concerns that the level of error and fraud within the R&D SME scheme is too high. At Spring Budget the Government also announced it would bring forward the additional information requirement to apply to all claims made on or after the 1 August 2023, instead of claims relating to accounting periods starting on or after 1 April 2023.

In addition to legislative change, HMRC is also taking significant operational action. There is a dedicated team of over 200 R&D specialists deployed on R&D tax reliefs, with additional flexible resource also available. The Anti Abuse Unit announced at Autumn Budget 2021 launched in July 2022, ahead of the planned start date of April 2023, and is already delivering a compliance impact. Over the last year, HMRC has also transformed its risking and processes to help tackle error and fraud.

The Government continues to make improvements to protect taxpayers' money, with results of the mandatory random enquiry program to be published in the summer, along with an action plan on how to reduce error and fraud.

## 2. Abuse of R&D Relief

***Recommendation 1:*** *HMRC should address the criticisms witnesses made of the way its compliance activities are conducted. These included an inconsistency of approach, failing to take account of information already received from claimants when making enquiries, poorly focused questions and a reluctance to engage constructively with taxpayers and their agents.*

**The Government partially accepts this recommendation.**

HMRC encourages and welcomes engagement from all stakeholders including customers, agents and representative bodies and does so via a variety of means including compliance activities, consultations and forums such as the R&D communication forum (RDCF).

The Government has mandated the supply of specific information when making an R&D claim from 1 August 2023. This will provide HMRC with consistent information on claims and will allow HMRC to better target its compliance activities.

***Recommendation 2:*** *While we note that the Minister responsible believes that the current resources are adequate for dealing with R&D relief, we recommend that the Government keeps the resource available to HMRC for dealing with R&D relief under review.*

**The Government accepts this recommendation.**

HMRC regularly monitors how it allocates resource to tackle risks. HMRC has over 200 people in specialist R&D compliance teams, with access to more that it flexibly deploys to R&D compliance. Alongside this the Anti Abuse Unit that was announced at Autumn Budget 2021 was launched in July 2022 ahead of the planned start date of April 2023. HMRC will continue to keep the resource allocated to R&D under review and tailor this according to the scale and nature of risks presented.

***Recommendation 3:*** *We recommend that HMRC review its current training programme for its R&D teams to ensure it is providing officers with the skills and knowledge they need to work effectively and appropriately with businesses on R&D relief.*

**The Government accepts this recommendation.**

HMRC operational & policy colleagues work closely to ensure training is tailored to the individual needs and experience of those working on the R&D reliefs. Training is regularly reviewed and refreshed taking on board any changes in the risk landscape, as well as feedback from customers and colleagues and policy updates. HMRC deploys staff flexibly and ensures that experts from across specialisms, including solicitors and fraud investigators, are available for R&D compliance activities where required.

***Recommendation 4:*** *We recommend that HMRC monitors whether compliance with the requirement for a senior officer of a company to endorse an R&D claim, as well as the company's own tax return, achieves the policy aim of this measure.*

**The Government accepts this recommendation.**

HMRC will assess the effectiveness of this requirement, in parallel with other new measures, through review of the volume and outcomes of customer compliance activities.

***Recommendation 5:*** *We recommend that the requirement that companies give notice of claims within six months after the end of their accounting period is dropped from the draft Finance Bill 2022–23 before it is introduced into Parliament.*

**The Government does not accept this recommendation.**

The Government has introduced the claim notification requirement in response to high levels of error and fraud within the R&D tax regimes. Requiring first time claimants and customers who have had a gap of several years between claims to register their intent to claim R&D tax reliefs is designed to encourage genuine claimants to engage with the regime at an earlier stage. This ensures that they get their claims right and limits the ability of spurious claimants to submit bulk claims for multiple earlier years.

## 3. The Administration of R&D Relief and SMEs

***Recommendation 6:*** *For R&D relief to work as an incentive of R&D activity, businesses need to know not only that it exists, but what it covers. The Government needs to ensure that SMEs have access to information about R&D relief. This information should be clear, accurate and simple to understand so that SMEs can easily identify whether R&D relief is relevant to what they do and, if it is, work out what steps they need to take to claim it. We agree with our witnesses that the Government needs to take control of the narrative of what qualifies as eligible R&D.*

*We recommend that, as a minimum, HMRC and BEIS work together on a new awareness campaign aimed at providing SMEs with accurate information about what is, and as importantly, what is not R&D.*

**The Government accepts this recommendation.**

HMRC are committed to improving the guidance offer for all customers. HMRC and DSIT R&D teams engage regularly to share policy updates and expertise. As well as the commitment to review the Corporate Intangibles Research and Development manual (CIRD), HMRC's technical guidance on the reliefs, HMRC has work in train to consult on new draft guidelines to assist R&D claimants with understanding their obligations (the "Guidelines for Compliance project.) HMRC will also work with external representative bodies to see whether any gov.uk guidance can be redesigned to support customer understanding.

HMRC and HMT are considering consultation responses on a proposed new R&D scheme, from the merging of the RDEC and the SME schemes, which could remove the distinction between SME and other customers from April 2024. Until the outcome of the consultation has been determined HMRC does not propose to create any new products aimed specifically at SME customers.

***Recommendation 7:*** *We recommend that HMRC work with stakeholders, for example, through its Research and Development Communication Forum, to understand better the concerns raised with us relating to the complexity of R&D reliefs and try to identify solutions.*

**The Government accepts this recommendation.**

HMRC holds regular webinars to engage with the Research and Development Communication Forum, a group representing varied R&D stakeholders. HMRC also has regular engagement with industry and accountancy bodies.

The Government is taking steps to address complexity in the regime. Following the changes at Autumn Statement the generosities of the two R&D tax schemes for non-R&D intensive SMEs are broadly aligned and there is now scope to simplify the system and consider merging schemes. The consultation, which ran from 13 January 2023 2to 13 March 2023, invited views from stakeholders on how a possible merged scheme should

2 Guidelines for Compliance - GOV.UK (www.gov.uk)

be designed. The government is currently considering the responses and no decision has been made. The government intends to keep open the option of implementing a merged scheme from April 2024.

The Government wants the tax system to be simple, fair and to support growth. Simplifying the tax system reduces the time and money businesses and individuals spend on tax administration, helps boost productivity and supports growth. Progress towards these principles can often align, but sometimes there are trade-offs to consider between them.

Following the closure of the Office of Tax Simplification, officials were given a clear mandate to focus on simplicity of tax policy design throughout the policy making process and on simplifying existing tax rules and administration. The Government has increased direct engagement with business organisations and tax professionals to better understand where problems for businesses and individuals arise, building on existing HMRC evidence and insight. New policy, as well as existing tax rules, will be subject to increased scrutiny to ensure new changes are as easy to administer as possible.

At Spring Budget 2023 the government announced a range of administrative changes to make it easier for businesses to interact with the tax system and a number of consultations to pave the way for future reform.

Tax simplification is an on-going priority for the government and will be kept at the core of the policy development process as tax policy and administration changes are considered for future fiscal events.

***Recommendation 8:*** *We welcome the work that HMRC is doing to develop a new methodology which will enable it to distinguish between error and fraud. We would like to see the results of the random sampling exercise when these are available.*

**The Government partially accepts this recommendation.**

The R&D Error & Fraud estimate will be published within HMRC's annual report and accounts 2022 to 2023 in July 2023. The estimate will be prepared utilising the results of the mandatory random enquiry programme. This work will not give an exact split of error versus fraud, due to the complexity in identifying intent and the specific definition of fraud. However, it will enable HMRC to identify different behaviours within the population of customers who have not been compliant. HMRC will confirm what will be published when the analysis is complete but will need to carefully consider the benefits of providing any further breakdown against the risk that this may prejudice future compliance activity.

***Recommendation 9:*** *Error and fraud are two different things. We are concerned that, although the draft Finance Bill 2022–23 measures are said to be directed at helping to reduce error, they have primarily been aimed at tackling the increasing number of spurious claims. HMRC needs to enhance its education and support to taxpayers to help them understand the scheme better and avoid errors.*

*While we understand the reasons why HMRC has adopted the "process now, check later" approach, we consider that it may not be sufficiently clear to claimants that giving relief in* *response to a claim does not mean that HMRC has accepted it as valid. There remains a possibility that action may be taken to recover the relief if later checks show that the claim did not meet the requirements for R&D relief.*

*We recommend that when relief is given it is accompanied by a warning about the possibility of later recovery.*

**The Government does not accept this recommendation.**

R&D relief is claimed by completing R&D entries on a Corporation Tax return (and a supplementary R&D page) which is then submitted via the Corporation Tax Self-Assessment system. All figures in the return including but not limited to the R&D claim are subject to statutory time limits for HMRC to enquire into.

The specific R&D guidance (see CIRD80525) states that 'If we decide to make a payment then we may still make an enquiry into the claim within the statutory time limit.' The wider Corporation Tax guidance states that HMRC may check for errors in the return. HMRC consider that the guidance provides sufficient warning to customers about the potential for all figures in the return to be checked.

The measures included in the Finance (No 2) Bill are designed to tackle error as well as fraud. For example, the new requirement for customers to provide information in a standardised way should help prevent errors and help to expose those errors when they do occur.

Additionally, for claims made on or after 1 August 2023, R&D customers will be prompted to include the details of a senior officer of the company in their additional information form. This new measure is intended to ensure awareness and understanding of the claim at a senior level in the company, to encourage companies to engage fully with the claim process from an early stage, and to take responsibility for understanding the requirements. The details of a senior officer of the company will also be included in the claim notification, required for all accounting periods beginning on or after 1 April 2023.

The current R&D payment process and IT systems mean that even if we were to accept this recommendation, there would be additional resource and IT costs as it would mean a whole new customer contact point that currently does not exist. The Government has not seen any evidence that this would be beneficial in terms of customer compliance as the existing warnings about potential enquiries post payment already exist. The government believe that the additional requirements from August 2023 will be more beneficial in ensuring compliance moving forwards.

***Recommendation 10:*** *We recommend that, in updating the BEIS Guidelines, BEIS works with HMRC to agree additional "real-world" examples, particularly in relation to R&D within the digital and technology sectors, for inclusion in revised Guidelines.*

**The Government partially accepts this recommendation.**

The Guidelines are kept under regular review and most recently were updated in March 2023 to reflect the expansion of the definition of R&D for tax purposes to include pure mathematics.

As the Guidelines provide the legal basis for the definition of R&D for tax purposes any revisions to the text have to be carefully considered to establish that they will not unintentionally impact the legal interpretation.

Both departments recognise the importance of clear and relatable guidance for customers and HMRC have committed to completing a refresh of the R&D section in the Corporate Intangibles and R&D manual, HMRC's technical guidance on the reliefs, as well as related gov.uk pages before 2024.

***Recommendation 11:*** *We recommend that BEIS commit to reviewing its Guidelines at least every five years.*

**The Government partially accept this recommendation.**

The BEIS Guidelines are kept under regular review. They were most recently updated in March 2023 to reflect the expansion of the definition of R&D for tax purposes to include pure mathematics.

***Recommendation 12:*** *We welcome confirmation from HMRC that it plans to undertake a comprehensive review of its published guidance covering R&D tax relief, as set out in its CIRD Manual, to make it more accessible and user-friendly.*

*We recommend that, in embarking on this review, HMRC consults with representative bodies from accountancy, tax, and business, and works with them to improve the accuracy and user-friendliness of its published guidance on R&D relief.*

**The Government accepts this recommendation.**

HMRC are committed to undertaking a comprehensive review of the CIRD manual.

Following launch of the R&D tax reliefs review at Budget 2021 HMRC has engaged with stakeholders through multiple targeted consultations, including a consultation on new draft guidance. HMRC has welcomed the engagement from representative bodies.

HMRC will continue to use its established channels, such as the RDCF, to engage with a wide cross-section of R&D customers and agents to ensure that the updated guidance can act as a valuable resource for customers.

***Recommendation 13:*** *We agree with our witnesses that HMRC's CIRD Manual is not an ideal resource for SMEs considering whether to claim R&D relief. We recommend that HMRC, as a minimum, updates its 2016 guide for SMEs to provide SMEs with helpful information about how the relief works.*

**The Government partially accepts this recommendation.**

The 2016 guide for SMEs has been removed from circulation as it duplicates information that is already available on gov.uk.

The Government is reviewing responses to a consultation on possible merger of the SME and RDEC schemes and HMRC does not intend to make any new products aimed specifically at SMEs until the review is completed.

HMRC recognise the importance of clear guidance for customers and is committed to re-writing the R&D elements of the CIRD manual, consulting on new Guidelines for Compliance, as well as reviewing ways to facilitate a better customer journey through existing gov.uk guidance products. HMRC intend to engage with external representative bodies when updating guidance products.

***Recommendation 14:*** *We are concerned about the uncertainty that has arisen as to the meaning of "subsidised expenditure" following the decision in the Quinn (London) Limited tribunal case. HMRC should consider what steps it can take to help resolve this uncertainty and address the concerns raised with us in evidence.*

**The Government does not accept this recommendation.**

HMRC's view on the meaning of "subsidised expenditure" has remained consistent and has not been changed by the outcome of the Quinn (London) Limited tribunal case. HMRC direct customers to the CIRD manual, which sets out the department's view on the application of the rules.

***Recommendation 15:*** *We recommend that HMRC re-launch the Advance Assurance Process for SMEs. We consider that providing a means for a business to obtain certainty as to whether its claim is eligible should be an essential part of the overall R&D scheme.*

**The Government partially accepts this recommendation.**

The Advance Assurance Process allows SMEs with less than £2 million turnover to check that their understanding of the application of the R&D rules to the facts of their business is consistent with HMRC's.

HMRC note that uptake of the Advance Assurance Process is currently low amongst customers. HMRC will use existing communication channels to promote uptake of this assurance offer as part of its overall approach to give certainty and assure compliance with the regime.

***Recommendation 16:*** *We recommend that HMRC revisit the conditions for being able to apply under the Advance Assurance Process, and in particular, remove the requirement that a company cannot have used the process before.*

**The Government partially accepts this recommendation.**

HMRC will reconsider the scope of the department's advanced assurance offer once design features of the potential merged scheme have been determined, and following a final decision on whether to proceed with merging schemes.

***Recommendation 17:*** *We can see merit in extending the Advance Assurance Scheme to claims for RDEC. HMRC should therefore publish its report on the success, or otherwise, of its pilot RDEC assurance scheme no later than Spring Budget 2023. It should also confirm* *whether or not a permanent RDEC assurance scheme for all companies, regardless of size, will be introduced.*

**The Government does not accept this recommendation.**

Due to the small scale of the RDEC advance certainty pilot, insufficient evidence was gathered to produce a meaningful report.

HMRC recognise the advantages of assurance processes for customers but there are also costs and other impacts to consider. Consideration of the best way to provide customers with assurance will be given once the design features of the potential merged scheme have been determined, and following a final decision on whether to proceed with merging schemes.

***Recommendation 18:*** *We recommend that HMRC liaise with BEIS to consider how it can enhance its access to scientific expertise when assessing whether a particular activity represents an advance in science or technology.*

**The Government partially accepts this recommendation.**

HMRC and DSIT have regularly scheduled calls to discuss developments in the R&D space. The departments will continue to work together to consider how to best use the expertise available and whether there are any opportunities to build on this working relationship to further support HMRC in building capability in assessing advances in science or technology.

## 4. The Definition of R&D

***Recommendation 19:*** *We welcome the Government's proposal to include pure mathematics within the scope of the definition of R&D. We also welcome the expansion to the definition of qualifying expenditures to include data licensing and cloud computing costs. As both of these changes to R&D relief will help to ensure R&D relief reflects modern R&D activity, we believe that they will help the UK to remain a competitive location for R&D.*

*We agree with our witnesses, however, that these changes fall short of a wholesale review of the definition of R&D and qualifying expenditure.*

*For R&D relief to be effective, it must be able to keep up with the pace of scientific and technological developments. We are concerned at the time it has taken for these changes, some of which were originally consulted on in 2020, to be introduced.*

**The Government partially accept this recommendation**

The Government is pleased that the committee welcomes the introduction of data and cloud computing as qualifying costs. The Government keeps the scope of the qualifying costs under review to ensure the reliefs keep pace with modern R&D activity and deliver value for money for taxpayers.

In the 2021 consultation the Government sought views on whether the definition of R&D and the scope of what qualified for relief remained fit for purpose. There was a strong consensus amongst respondents that the definition of "R&D" itself does not require amending given it is well understood, embedded and consistent with the OECD Frascati standard, including the core criteria within it.

There was appetite from stakeholders for guidance to be updated regularly on how the definition applies across sectors and the Government's assessment of what qualifies. The Government will take this feedback forward and will review existing sector specific guidance.

Based upon responses to the consultation the Government does not see the need to conduct a wholesale review of the definition of R&D at this time as it would create unnecessary uncertainty when the principles of what activity are R&D match the Frascati definition.

***Recommendation 20:*** *We recommend that when the draft guidance, published on 20 December 2022, is finalised to take account of comments received during consultation, additional examples are added to aid understanding of how the new rules will apply.*

**The Government accepts this recommendation.**

HMRC have welcomed consultation responses on the draft guidance from more than 60 stakeholders. The insight that this has given into the practical application of the changes across different sectors and customer segments will be reflected in the final guidance.

***Recommendation 21:*** *We recommend that the Government should use the consultation period on the draft guidance to ensure that HMRC's interpretation does not inadvertently result in the changes being less useful than intended.*

**The Government accepts this recommendation.**

HMRC have welcomed consultation responses from more than 60 stakeholders. The insight that this has given into the practical application of the changes across different sectors and customer segments will be reflected in the final guidance.

***Recommendation 22:*** *We recommend that when the guidance is revised after the consultation period more examples are included.*

**The Government partially accepts this recommendation.**

HMRC have used the consultation period to discuss real-world application of the rules with stakeholders and intend to revise the draft guidance where appropriate to reflect the feedback received.

Consultation responses showed that customer requests for more examples focused on the proposed overseas restriction. As implementation of the overseas restriction has now been delayed until 2024 the request for more tailored examples to support this measure will be taken forward as part of that implementation timetable.

## 5. Refocusing relief on R&D carried out in the UK

***Recommendation 23:*** *We understand that the Government believes it cannot justify giving unrestricted relief for R&D expenditure overseas. However, if it also hoped to bring more R&D activity currently offshore into the UK, the evidence we received suggests that the proposed restriction may not be successful in this respect, at least in the short term. Witnesses suggested that it could even result in some R&D activities which currently take place in the UK being relocated to other countries. We also acknowledge the concerns of our witnesses related to the shortage of some specialised skills in the UK, and the nature of timescales involved in R&D projects.*

*We recommend that the Government considers introducing some form of transitional relief for expenditure on specialised resource which is not available in the UK, especially for contracts already entered into. This would give companies time to adjust to the new rules.*

**The Government partially accepts this recommendation.**

The Government intends to refocus the R&D reliefs towards innovation in the UK to more effectively capture the benefits of R&D funded by the reliefs. The Government recognises there are cases where it is in some way unavoidable for the R&D activity to undertaken overseas and so will allow for some narrow exemptions.

As the Government announced at Spring Budget 2023, the previously announced restriction on some overseas expenditure will now come into effect from 1 April 2024 instead of 1 April 2023. This will allow the Government to consider the interaction between this restriction and the design of a potential merged R&D relief. This will provide another year for companies to claim R&D reliefs on activities undertaken outside of the UK.

The Government still intends to legislate so that expenditure on overseas R&D activities can qualify where there are:

- **material factors** such as geography, environment, population or other conditions that are not present in the UK and are required for the research, meaning expenditure must take place outside of the UK – for example, deep ocean research.
- **regulatory or other legal requirements** that activities must take place outside of the UK – for example, clinical trials.

The Government does not think further exemptions are necessary cases as they are unlikely to meet the objectives to encourage more R&D activity in the UK and to reduce error and fraud.

While the restriction is not included in the Finance (No 2) Bill, respondents to the consultation on the draft guidance did address it at length and HMRC will take account of those responses when drafting final guidance when the restriction is included in future legislation (for example, by adding suitable examples provided by stakeholders).

## 6. The continuing R&D relief review

***Recommendation 24:*** *We recommend that, no later than the Spring 2023 Budget, the Government should publish an outline of the areas that it is considering as part of the ongoing review, with an indicative timeline for consultation with stakeholders. The value of R&D relief to many businesses means that the Government needs to be as transparent as possible as to the changes it is considering.*

**The Government accepts this recommendation.**

As published at the Spring Budget 2023, [3] the R&D tax review is ongoing and the Government can provide the following update:

- As previously announced at Autumn Budget 2021, the R&D tax reliefs will be reformed by expanding qualifying expenditure to include data and cloud costs as well as targeting abuse and improving compliance. These changes are legislated for in Finance (No 2) Bill
- The Government's consultation on merging the R&D Expenditure Credit (RDEC) and SME schemes closed on 13 March 2023. The Government is currently considering the responses and no decision has been made. To keep open the option of implementing a merged scheme from April 2024, the Government will publish draft legislation on a merged scheme for technical consultation alongside the publication of the draft Finance Bill in the summer, with a summary of responses to the consultation.
- The consultation included questions on the case for providing more generous support to R&D intensive companies. The Government will consider the responses to these questions, and will keep the R&D intensive scheme design under review to ensure its effectiveness and its delivery of value for money. The Government will continue to engage with industry on how this support might be improved going forward.
- Separately HMRC has agreed to provide a more accurate estimate of the error and fraud to the Public Accounts Committee by Summer 2023. This will be alongside a clear action plan to reduce error and fraud. Any further measures to combat error and fraud will be announced separately.

Any further changes as a part of the review will be announced at a future fiscal event, including a final decision on whether to merge schemes.

3 Spring Budget 2023, https://www.gov.uk/government/publications/spring-budget-2023

***Recommendation 25:*** *The Government should continue to look for further ways in which R&D relief could be improved, in particular to ensure the relief is able to adapt rapidly to changing technology. In this, the Government should be open to learning from the experience of other countries.*

**The Government accepts this recommendation.**

International comparisons are a core part of the policy making process. At the Autumn Statement the Government announced it would increase the rate of the RDEC scheme from 13% to 20%. This means that the UK now has the joint highest uncapped headline rate of tax relief in the G7 for large companies.

Furthermore:

- The UK spends the highest amount as a percentage of GDP on R&D tax reliefs in the OECD. This is primarily due to the UK having the highest number of claims in the OECD.
- The UK is the only country in the OECD with two different tax reliefs for SMEs and large companies that work differently.
- The UK is one of the few countries in the OECD with a full refundable payable credit available to companies of all sizes.

HMRC continues to engage with international counterparts to take any lessons learned to improve the administration of the R&D tax reliefs.

***Recommendation 26:*** *We recommend that, in taking other aspects of the R&D review forward, the Government should hold a more open-ended consultation on possible changes to how R&D relief works in the UK. It should invite stakeholders to provide suggestions for change rather than looking for responses to predetermined proposals.*

**The Government partially accepts the recommendation.**

At Budget 2021, the Government announced the review of R&D tax reliefs, supported by the wide-ranging consultation with stakeholders that explored the nature of private-sector R&D investment in the UK, how that is supported or otherwise influenced by the R&D relief schemes, and where changes may be appropriate.

It looked at:

- Definitions, eligibility and scope of the reliefs, to ensure they are up-to date and competitive, and that they reflect how R&D activity is conducted now
- How well the reliefs are operating for businesses and HMRC, and whether this could be improved
- Targeting of the reliefs, to ensure that for every pound of taxpayer support, the Government maximises the value of the beneficial R&D activity for the UK economy.

The Government was grateful for the 183 responses received along with discussions and roundtables with businesses and their representatives. Responses and engagement from stakeholders included responses to questions alongside further suggestions for improvement. The Government listened to stakeholders, taking on board recommendations ahead of announcements at Autumn Budget 2021, Spring Statement 2022 and Autumn Statement 2022.

At the Autumn Statement 2022, as part of the review into the R&D tax reliefs, the Chancellor committed to considering the case for further support for R&D intensive SMEs. Following engagement with industry, the Chancellor is now acting to provide that support.

The Government also committed to consulting on the design of a potential simplified scheme. This consultation invited views on the design of a potential single R&D tax relief scheme. The consultation had a range of open-ended questions that allowed stakeholders to contribute their views in a constructive way. For example, Question 3: *'If you use RDEC now, is there anything in your view that should be changed?'*

The Government does not see the need for another wide-ranging consultation but engages with industry regularly and welcomes any suggestions to improve the R&D tax reliefs.