

Written evidence submitted by ForrestBrown Ltd

1. What are the major long-term pressures on the tax system in the UK, including those arising from changes in working practices, demographics, the environment and other factors? How are these affecting the efficiency of the tax base and the overall level of demand for public services?

As an R&D tax adviser, our subject matter expertise relates to R&D tax incentives, which are designed to encourage companies to invest in innovation. We regularly advise businesses across all sectors and of various sizes, from start ups to established businesses, on R&D tax incentives, giving us insight into the challenges faced by these businesses and how they interact with government support for R&D. As such, we will limit our responses to our area of expertise.

2. What more can the UK do to protect its tax base from erosion as a result of globalisation and technological change, and what further impacts will the coronavirus pandemic have on our tax base?

As noted above, our response is limited to questions covering the role of tax reliefs in the recovery.

3. Do these pressures need to be met with tax reform, and if so, is this the right time for reform?

We support a full review of the current R&D tax incentives to ensure that they remain effective and adapt to the changes brought about by the pandemic, along with other factors.

4. What overall level of taxation can the economy bear without undesirable or counterproductive harm to economic growth?

As noted above, our response is limited to questions covering the role of tax reliefs in the recovery.

5. Which areas of the tax system are most in need of reform, and which are best left alone?

We support a full review of the current R&D tax incentives to ensure that they remain effective and adapt to the changes brought about by the pandemic, along with other factors.

6. What reforms should be considered in response to the pressures on the tax system?

The time is right for the R&D tax incentive in the UK to be reviewed. It was introduced 20 years ago and has undergone a substantial number of individual amendments since that time. The result is a complex set of rules and a number of challenges to its effectiveness. These challenges include a lack of awareness among business, a vulnerability to abuse and a market which attracts poor quality advisers, a hardening of compliance efforts from HMRC and increasing costs. As the UK moves into a potentially prolonged recession, an effective tax system which protects innovation becomes absolutely key to recovery.

With respect to R&D tax incentives, we recommend:

- Government initiates a more comprehensive review of the R&D tax incentive, refraining from further incremental changes which add complexity without addressing the root causes of the challenges faced.
- A collaborative project to update the definition of R&D for tax purposes so that it is accessible for businesses and society.
- HMRC is tasked with providing better, more comprehensive guidance on R&D tax incentives generally, and specifically on their interaction with other funding for innovation.
- Consideration is given to introducing a different, simpler, faster mechanism for very small R&D tax credit claims, to support our most vulnerable businesses through the recession.

7. What is the role of tax reliefs in rebuilding the economy and promoting economic growth and efficiency? Does the current regime of tax reliefs perform this role well?

An effective tax incentive for R&D is an essential pillar of an economic strategy which encourages business innovation. The R&D tax incentive encourages innovation right across the economy (whereas direct funding targets specific projects).

Overwhelmingly, our clients find the R&D tax incentive to be a vital form of funding for innovation, and we have seen first-hand the transformative effect the tax incentive can have for a business. However, there are opportunities to review the R&D tax incentive to clarify the support on offer and to ensure that it is meeting its policy intent. A review could help ensure that the system is not open to misuse either through poor-quality advice or fraudulent activity.

8. What are the areas for simplification?

As noted above, R&D tax incentives, though well established, have suffered from numerous incremental changes and a lack of investment in proper guidance for taxpayers. The generosity of the incentive has also attracted fraudsters and poor advisers, which has resulted in added complexity as government and HMRC attempt to make the incentive less vulnerable.

9. Is there a role for windfall taxes in the post coronavirus world?

As noted above, our response is limited to questions covering the role of tax reliefs in the recovery.

10. What is the right balance between taxation of work, savings/pensions and wealth?

As noted above, our response is limited to questions covering the role of tax reliefs in the recovery.

11. What is the best way to tackle tax reform, including what changes might be needed at HMRC to support implementation, and how should the Government consult with stakeholders and parliament?

A commitment to an open and transparent dialogue between government, HMRC and stakeholders is essential in tackling wide ranging tax reforms. Formal consultation processes are useful, but there is a lack of transparency in analysing and reporting on responses (and sometimes significant delays). Many respondents choose to publish their representations, however this creates a volume of different opinions and inconsistencies in messaging can be lost.

Working groups with a range of stakeholders should be considered best practice alongside written consultations, and more video-conference style discussions would ensure that more legitimate views are represented.

HMRC have an important role in collecting taxes, and a primary goal of reducing the tax gap. This can conflict with work to enable reliefs and incentives, or to design systems which seek to fund companies, rather than tax them. A dedicated tax force within HMRC, who share a common purpose distinct from tax collection, would ensure that HMRC can work effectively alongside key stakeholders to discuss tax reform.