



Increasing the payable credit to loss-makers under the small and medium sized enterprises research and development tax relief

Who is likely to be affected?

Loss-making small and medium sized enterprises (SMEs) conducting research and development (R&D) activities.

General description of the measure

From 1 April 2014 the rate of R&D payable tax credit for loss making small SMEs will be increased from 11 per cent to 14.5 per cent. This will increase the rate of the cash credit payable to SMEs that conduct qualifying R&D activity but do not have corporation tax liabilities.

Policy objective

The measure will provide further incentives for small companies and start-ups to invest in R&D. It targets companies for whom risks and market failures are most pronounced. This measure is consistent with the Government's wider objective to support small innovative companies with high growth potential.

Background to the measure

This measure was announced in Budget 2014.

R&D relief gives additional corporation tax relief for expenditure incurred on R&D projects that seek to achieve an advance in science or technology. A distinct scheme exists for SMEs, which was originally introduced in Finance Act 2000. For a SME with no corporation tax liability a tax credit can be claimed by way of a cash sum paid by HM Revenue & Customs (HMRC). A SME is a company or organisation with fewer than 500 employees and either an annual turnover not exceeding €100 million, or a balance sheet not exceeding €86 million.

Detailed proposal

Operative date

The rate increase will apply for qualifying expenditure incurred on or after 1 April 2014.

Current law

Part 13 of the Corporation Tax Act 2009 (CTA 2009, sections 1039 to 1142) provides additional corporation tax relief for R&D expenditure. Section 1054 of CTA 2009 provides for the payment of R&D tax credits to loss-making SMEs. Section 1058 gives the rate at which this payable tax credit is calculated.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to increase the rate in section 1058 of CTA 2009 at which the payable tax credit is calculated from 11 per cent to 14.5 per cent in respect of expenditure incurred on or after 1 April 2014.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	-5	-50	-	-	-
	These figures are set out in Table 2.1 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Budget.				
Economic impact	R&D tax relief reduces the cost of R&D investment that companies make and is therefore likely to increase aggregate R&D expenditure, which will benefit the economy more widely through the positive spill over effects in terms of increased innovation and productivity in the wider economy.				
Impact on individuals and households	There is no impact on individuals or households. This change only affects companies involved in R&D.				
Equalities impacts	This change only affects companies involved in R&D and not individuals. It is considered that these proposals have no significant impacts on protected equality groups.				
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses.</p> <p>Around 10,000 SME's claim R&D tax relief each year. These companies will benefit from the improved incentive to carry out additional R&D. As this is a straightforward change, companies claiming will face a negligible one-off administrative impact.</p> <p>This measure is expected to have no impact on civil society organisations.</p>				
Operational impact (£m) (HMRC or other)	Some increases are anticipated in the number of companies making claims, in the amount of R&D expenditure companies incur, and in the amount of relief claimed. However, no structural changes are necessary to operational delivery and there should be no significant impact on HMRC operational costs.				
Other impacts	<p><u>Small and micro business assessment</u>: there will be a positive impact for small firms carrying out R&D, as they can benefit from an increased payable tax credit.</p> <p><u>Competition assessment</u>: there should not be any impact on competition as they do not affect or limit suppliers' ability to compete.</p> <p>Other impacts have been considered and none have been identified.</p>				

Monitoring and evaluation

Uptake of the number of companies claiming the relief and amounts of relief claimed are regularly monitored, and published as National Statistics.

Further advice

If you have any questions about this change, please contact Jennifer Payne on 03000 575330 (email: jennifer.payne@hmrc.gsi.gov.uk).