



Research and Development tax credits: increasing generosity

Who is likely to be affected?

All companies claiming Research & Development (R&D) tax credits.

General description of the measure

An increase in the rate of the 'Above the Line' (ATL) expenditure credit for large company R&D activity from 10 per cent to 11 per cent from 1 April 2015.

An increase in the rate of relief for small and medium enterprises (SMEs) from 225 per cent to 230 per cent from 1 April 2015.

Policy objective

R&D tax credits are a key element in the government's commitment to an internationally competitive tax system and in its objective for strong and sustainable private sector-led growth.

Raising the rate of both the ATL expenditure credit and the SME relief will increase the financial value of the relief, increasing the incentive to carry on R&D and improving the competitiveness of the UK as a location for R&D investment.

Background to the measure

The R&D relief regime is an incentive for R&D activity and investment in innovation.

The Government announced at Autumn Statement 2011 that it would introduce an ATL expenditure credit for large company R&D investment in April 2013.

The Government announced at Budget 2013 that the ATL expenditure credit would be introduced at a pre-tax rate of 10 per cent.

A distinct scheme exists for SMEs, which was originally introduced in Finance Act 2000.

The Government announced at Budget 2011 that it would increase the rate of the SME relief from 175 to 200 per cent from April 2011, then from 200 per cent to 225 per cent from April 2012.

The Government announced at Budget 2014 the rate of the credit payable to loss-makers under the SME scheme would increase from 11 per cent to 14.5 per cent.

This measure forms part of a package of wider changes to the support for R&D, intended to focus the relief better and to improve the administration, particularly for small companies.

Detailed proposal

Operative date

This measure will have effect in relation to qualifying expenditure incurred on and after 1 April 2015.

Current law

The legislation applicable to the ATL Expenditure Credit is contained at Corporation Tax Act 2009 (CTA 2009) Part 3 Chapter 6A (sections 104A to 104Y) with consequential amendments to Finance Act 1998, Finance Act 2007 and CTA2010.

It is a stand-alone credit to be brought into account as a receipt in calculating the profits of large companies for R&D expenditure incurred on or after 1 April 2013 known as the 'above the line' Research and Development expenditure credit (RDEC). The R&D expenditure credit does not alter the way qualifying activity is identified or how qualifying expenditure is calculated. Only the method of giving the relief is different from the previous tax relief for large companies or from the SME scheme.

The legislation for the SME R&D tax credit is at CTA 2009 Part 13 Chapter 2 (sections 1042 to 1062).

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to amend the R&D provisions in CTA 2009 in order to increase the rate of the expenditure credit from 10 per cent to 11 per cent and the rate of the SME scheme from 225 per cent to 230 per cent.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-40	-	-	-	-
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	R&D tax relief reduces the cost of R&D investment that companies make. Increasing the generosity of R&D tax credits 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, households and families	The measure will apply only to corporate entities within the charge to CT and so is not expected to have an impact on individuals, households or family formation, stability or breakdown.					
Equalities impacts	The measure will apply only to corporate entities within the charge to CT and so is not expected to have any equality impacts.					
Impact on business including civil society organisations	In 2012-13, the latest year for which figures are available, 15,120 companies claimed R&D tax relief – an increase on previous years. The rate change increases the amount of relief companies can claim for a given level of expenditure without adding any significant cost or complexity to the claims process i.e. there are no reporting differences under the old and new schemes. This measure is expected to have a negligible impact on administrative burden for businesses. This measure will have no impact on civil society organisations.					

Operational impact (£m) (HMRC or other)	There will be no significant impact on HM Revenue & Customs (HMRC).
Other impacts	<p><u>Small and micro business assessment</u>: this measure is expected to have a positive impact on companies which are small or micro businesses carrying on research and development as it increases their R&D relief.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups.

HMRC monitors claims for R&D relief and publishes an annual statistics release on the subject.

Further advice

If you have any questions about this change, please contact David Harris on 03000 586834 (email: david.harris@hmrc.gsi.gov.uk).