

Improving access to R&D tax credits for small business: consultation summary

Introduction

Research and Development (R&D) is crucial for the long-run growth of economies. This is why R&D tax credits play a key role in the Government's commitment to an internationally competitive tax system and in its objective for strong and sustainable private sector-led growth. Over 15,000 companies (large and small) claim over £1.4bn in credits each year. Successful claims have been made across a wide range of business sectors including delivering advanced surveillance systems for the defence and aerospace markets, design and manufacture of specialised electronics used in a broad range of applications and in the building sector, new methods of construction such as modular and panel design, giving flexibility including off-site fabrication

At Autumn Statement 2014, the government announced a package of measures to streamline the application process for smaller companies, to ensure that all companies are able to access the relief. In this consultation the government is asking small companies and their advisers how we can make it easier and more straightforward for you to claim.

This consultation focuses on the four main areas that drive claims to the relief:

- **Awareness.** Are key decision makers in small companies aware of the relief?
- **Design.** Are the rules appropriate for small companies?
- **Understanding** Do decision makers in small companies understand the rules, how they apply to the company, and the claims process?
- **Administration.** Does the process operate smoothly (speed, and ease of use) for small companies?

Awareness

At present, the focus of HMRC's communications on R&D tax credits is through R&D specialists, supported by guidance material on the HMRC and gov.uk websites. To further increase the take up of R&D tax relief we are asking you for help to understand where you go to access information and advice on this subject.

We want to find better ways of raising awareness amongst the business population (in particular small businesses) to increase the take-up of this relief.

We want to know what we might do better to raise the profile of R&D tax credits and whether there are new ways of engaging you with this information to help increase take-up. For example, would you prefer to receive information through social media, trade bodies or other business networks?

Design

There are rules which set out what types of R&D expenditure are eligible for tax credits. The key design features of the R&D tax credits are the definition of what is “Research and development”, the activity that the relief supports, the types of expenditure that qualify for relief (eg staff costs), and how relief is given (via the Corporation Tax system).

The definition of R&D was consulted on in 2011, when most responses told us that the current definition is well established, understood and effective. However, we would like to understand from you whether this remains true for smaller companies.

One alternative that has been suggested to us is that small companies could be given an option of setting aside the current definition and instead using accounting rules to identify qualifying R&D. Do you think this is something that would benefit smaller businesses?

The current rules specify different types (categories) of expenditure on R&D which qualify for tax credits, such as the cost of labour and the cost of consumable items. The rules aim to capture the majority of R&D costs, without introducing complexity by going into detail on every potential cost. However we have had some feedback that the rules on what costs qualify for tax relief may be over complex given the amount of relief that can be claimed. We would like to know what whether you would prefer a more general framework or guidance which gives more certainty, specifying what R&D costs qualify for relief.

Understanding

The government has already committed to improve the R&D guidance, including making changes¹ suggested by the Office of Tax Simplification² in their report on tax Competitiveness. We are keen to use this consultation to explore different ways of providing guidance, rather than simply upgrading the current material, which is mainly addressed at those with a good understanding of corporation tax, especially HMRC staff.

- Should we provide guidance in new forms – as interactive flowcharts or applications?
- Should it be organised according to how the legislation for the credits is arranged, or follow events in a company’s lifecycle?

This is an opportunity to consider, from first principles, what the guidance should be – both what is in it and how it is delivered - and we welcome views on this.

¹ Improving guidance on software R&D, updating case studies and making clear what activities included as R&D by the BIS guidelines do not qualify for additional tax relief.

² See <https://www.gov.uk/government/publications/competitiveness-of-uk-tax-administration-review>

Administration

The Government announced at Autumn Statement 2014 that HMRC will introduce a formal process of advance assurance for small companies claiming R&D relief for the first time. The aim is to provide certainty and enable businesses to plan their finances effectively. HMRC will benefit from reduced errors as assurances should minimise the need for later HMRC intervention.

Smaller companies making their first claim will be able to approach the R&D Units in advance and discuss the claim. There will be a single initial contact point for this purpose. Companies will supply brief information in a standard template, usually followed by a telephone (or in some cases, face to face) discussion. It is **not** proposed that advance assurances will be compulsory, or that any fee will be charged.

In the consultation, we are seeking your views on how the assurances might best be delivered, to meet their objectives. We invite you to respond either by a full representation by 27 February to

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By email to the address below or via an online survey at

<https://www.surveymonkey.com/s/HMRCCTaxReliefsconsultation>

Any other enquiries about the consultation should be addressed to Nalini Arora either by email to nalini.arora@hmrc.gsi.gov.uk or on 03000 545843