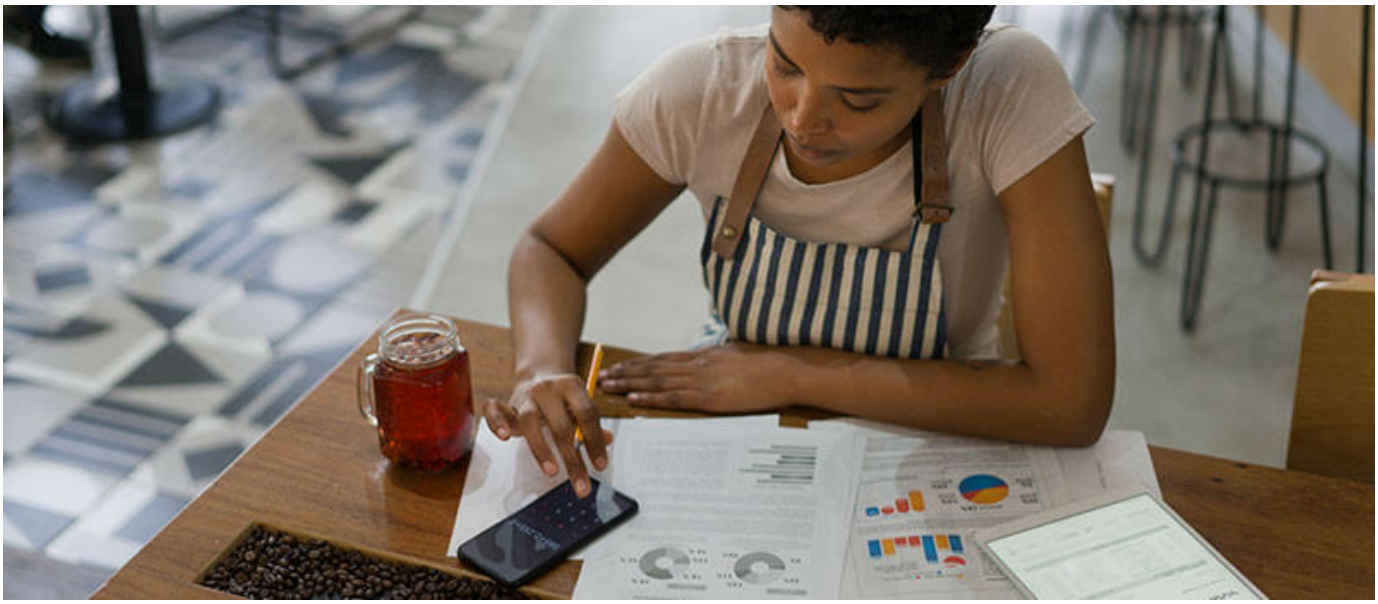
R&D tax reliefs review: consultation on a single scheme

Large Corporate OMB



20 April 2023

CIOT and ATT responded to the ‘R&D tax reliefs review: consultation on a single scheme’. Both organisations’ responses recognised the different levels of support required by large and small companies and emphasised that the muted timetable for introduction of a new single scheme was too short.

The consultation on a single scheme for R&D tax reliefs was part of the wider review of the UK’s R&D relief schemes that began in Spring 2021. R&D relief is a longstanding form of government intervention into economic activity that is supported throughout the business world. The consultation document noted the continued government focus on encouraging innovation generally, and the continued government commitment to supporting SME R&D.

CIOT response

The CIOT said that having one scheme for R&D tax relief rather than two would be a simplification to the UK tax code, and that if there is to be one scheme for all companies, it should be an above the line RDEC like credit. However, we also said that a single scheme with a single rate will not necessarily be simple or fair for all smaller companies. In particular, we noted that complications will arise as a result of the two rates of corporation tax that will come into effect from 1 April 2023. This will mean that companies which have profits that are subject to marginal relief will receive a lower level of effective support for R&D activities.

The CIOT said that the reasons for historically giving a higher rate of relief to SMEs were still relevant. Consequently, whilst recognising that it would involve additional complexity within the scheme, consideration should be given to having a higher rate of R&D relief for smaller companies within a single scheme, especially during a transitional period.

With regard to timing, the CIOT said that implementing a new scheme from April 2024 is too soon. The current pace of change in the R&D relief regime is already challenging for businesses and their advisers. The timetable should ensure that the new rules are fully published, and the detail of what will be required from companies is fully available, in good time before the commencement of a new regime. This will avoid a repeat of the unsatisfactory position that companies are currently in with regard to the changes that came into effect from 1 April 2023. This will minimise uncertainty, which is one of the biggest blockers to investment. It is important that changes are managed in an efficient manner and well communicated in conjunction with transitional rules that minimise commercial disruption.

More generally, we noted the Report published in January 2023 by the House of Lords Finance Bill Sub-Committee (tinyurl.com/4r8u9v9x). The recommendations made by this report will remain relevant in relation to any new single scheme.

Our full response can be found at: www.tax.org.uk/ref1076

ATT response

As set out in our response to the consultation (www.att.org.uk/ref413), the ATT does not support the introduction of a single merged R&D relief scheme. We do not believe that any such scheme would adequately take into account the very real differences between the activities and needs of smaller and larger companies.

The difficulties arising from applying a ‘one size fits all’ approach to R&D relief are reflected in the specific questions posed by the consultation regarding the treatment of sub-contracting, the cap on repayable credits and offering differing levels of relief, etc.

We are also concerned that combining the two schemes is not a proportionate way to tackle abuse and fraud, and risks sending the message that the UK values the innovative contributions of smaller companies less than that of their larger peers.

Finally, ATT agrees with the CIOT in that the proposed commencement date of April 2024 is not feasible, especially as consultation on the future design of any new scheme has only just begun. In ATT’s view, given the fundamental nature of the changes proposed, and the impact they may have on R&D activity in the UK, the process should not be rushed. Instead, the appropriate time should be taken to ensure that any new scheme is well designed and operates effectively for all parties.

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