# R&D crackdown deterring genuine claims, Institute warns

Briefings



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CIOT has warned that HMRC's efforts to get tough on abuse of R&D tax relief are resulting in them rejecting legitimate claims and stonewalling other genuine claimants with a bureaucratic system driving them to give up on their claims.

In a letter to the Director of Wealthy and Mid-Sized Business Compliance at HMRC in July, CIOT sets out its view that the ‘volume compliance’ approach adopted by HMRC since late 2022 does not work well for R&D relief claims, due to the complex nature of the relief and the technical consideration required in ascertaining whether or not there has been a qualifying R&D project. The letter provides examples supplied by members of how the process is going wrong.

The volume compliance approach is based around frequent challenge and standardised letters with little or no opportunity for businesses and their advisers to explain the R&D activity they are engaged in. Whereas historically conversations were an important mechanism through which R&D could be explained to HMRC,

under the new approach there is no direct engagement between the compliance team and the claimant, either in person or virtually.

Later in July, HMRC published its R&D compliance action plan and met with CIOT to discuss it. CIOT has expressed the hope that collaboration on this issue will continue.

Ellen Milner, CIOT Director of Public Policy, commented: ‘We are keen to work with HMRC to improve compliance processes so that there is less of a collateral impact on genuine R&D claims, and the compliance processes support the policy objective of encouraging R&D.’

## Merger plans

Both CIOT and ATT have responded cautiously to draft legislation to merge the UK’s two R&D reliefs, which was also published in July.

Jon Stride, Vice Chair of ATT’s Technical Steering Group, warned that successfully delivering a new scheme in April 2024 would be ‘extremely challenging’ for businesses, agents, software providers and HMRC, who would need to put the required systems and processes in place in a short space of time.

The government says that it has not yet decided whether to merge the two schemes, but the ATT says that, should the new regime be approved, its introduction should be delayed, with the extra time used to ensure it is designed in a way that works for companies of all sizes.

For CIOT, Ellen Milner warned that the government faces challenges ensuring a merged relief is both simple and fair. She noted that there will be a ‘tricky trade-off’ between the potential simplification of a merged scheme and policy decisions to provide additional support to SMEs (or some of them) through different rates of relief. ‘Whilst we recognise that it would involve additional complexity within the scheme, consideration should be given to having a higher rate of R&D relief for all smaller companies within a single scheme, especially during a transitional period,’ she said.

CIOT joined ATT in expressing concern about the ‘overly ambitious’ timetable for a merger.