R&D changes go against simplification remit

Briefings



26 October 2023

Proposed changes to research and development tax relief are too ambitious and will make things more complicated for businesses, ATT and CIOT have warned.

While the proposals seek to consolidate the two current, separate reliefs into a single scheme, they also include a new enhanced relief for ‘R&D intensive’ small and medium sized enterprises (SMEs) which will operate as a standalone scheme.

The ATT says this will defeat the object of combining the schemes and work against the government’s ambitions to simplify the tax system, instead creating more complexity and confusion for businesses.

Senga Prior, chair of the ATT Technical Steering Group, said: ‘The proposals are extremely disappointing given that the simplification was a key advantage identified during the consultation process on the new single scheme.

‘We would recommend that, once the new “single scheme” is launched, any enhanced support for R&D intensive SMEs be included within that, rather than operating on a standalone basis.’

The government is keeping open the option of implementing the new scheme in April, with a final decision to be made at a future fiscal event (assumed to be the Autumn Statement on 22 November).

The CIOT says this short timescale means the policy will not be properly scrutinised, and opportunities will be missed to simplify the relief system, despite tax simplification being a key government target. It has called for the timetable to be slowed down to allow proper consultation.

David O’Keeffe, chair of the CIOT’s R&D working group, said: ‘It is disappointing that the proposal to move to a new scheme, a concept that we support in principle, is being rushed in this way. The government should take extra time to consult fully on and properly consider the areas of complexity and difficulty. We should remember “more haste, less speed” to ensure a set of rules that are “fit-for purpose” and deliver on the policy aims of supporting and encouraging R&D in the UK.’

HMRC response

Meanwhile, CIOT has welcomed an acknowledgement from HMRC that their handling of some R&D tax relief claims has not met their Charter standards, but remains concerned that HMRC’s ‘volume approach’ to managing R&D enquiries means that legitimate claims will continue to be rejected.

HMRC was replying to a letter CIOT wrote to them in July, sharing members’ concerns around the conduct of R&D enquiries into claims by SMEs.

Ellen Milner, CIOT director of public policy, said: ‘We welcome HMRC’s response to our letter, which acknowledges the issues that we raised and sets out how HMRC are going to address them. Abuse of R&D relief is a significant problem, and HMRC are right to be prioritising action to tackle it. But HMRC must lead by example and be in accordance with their professional standards and Charter commitments, as well as, of course, the law.’

Letters can be read at: tax.org.uk/ref1166