R&D changes risk discouraging genuine innovation

Briefings



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Fall in claims likely includes legitimate claimants walking away.

The number of first-time applicants for SME Research and Development (R&D) tax relief has dropped by 45% in just one year, reinforcing concerns from the ATT that efforts to tackle fraud may be discouraging genuine claimants.

Recently released HMRC figures show that the number of first-time applicants for the SME R&D scheme dropped to 7,230 in 2022-23 – the latest year for which full data is available – down from more than 13,000 the previous year. This decline came before major reforms to the R&D regime took effect and likely reflects the impact of HMRC's increased compliance activity. While some fraudulent activity will have been deterred, the ATT warns that complexity and cost may also be preventing genuine claimants from accessing the relief.

Statistics for 2023–24 estimate the total number of R&D tax relief claims to be 46,950, a decrease of 26% from the previous year.

Jon Stride, chair of the ATT's Technical Steering Group, said: 'HMRC appear to view the reduction in claims as evidence that fraud and error are falling. But in reality, it's likely a mix of factors, including genuine claimants walking away, either because of complexity or because they lack the resources to defend a claim under enquiry.'

The ATT warns that without greater stability and support for small businesses, R&D tax relief could become less accessible to the very companies it was designed to help — early-stage, innovative firms that often lack the resources to navigate a fast-changing and increasingly complex system.