

R&D TAX RELIEFS CONSULTATION – SUMMARY OF OUR RESPONSE

In our response to the R&D tax reliefs consultation we welcome the Government target to raise total investment in R&D to 2.4% of UK GDP by 2027.

Following a series of consultations on R&D and R&D tax relief over recent years we urge the Government to now progress reform with urgency to ensure the UK remains globally competitive.

Our response makes the following key points:

- To meet its ambitious R&D target Government must look to support and grow centres of excellence, such as Cambridge. Tax reliefs should be viewed as part of a coordinated approach across different areas of Government policy to boost R&D investment. These include local infrastructure investment, the international trade environment, developing and attracting the required skills base for R&D activity, research and innovation funding and the broader UK tax environment.
- Government should seek to balance the advantages of operating an open and competitive global economy with policy to retain UK start-ups so that home grown success stories contribute to R&D growth in the UK.
- We are strongly supportive of the role that R&D can play in the levelling up agenda. Ongoing investment in innovation clusters like Cambridge are complimentary to this ambition. Cambridge attracts talent and investment from across the globe to the benefit of its wider region, the OxCam Arc, and the country as a whole.
- The benefits of R&D tax reliefs should be more visible to key decision makers within organisations so that they understand how further investment can directly impact the profitability of their company.
- The process associated with claiming reliefs should be simple to operate, maximising the chance that companies will choose to claim and therefore the competitiveness of the UK system. A light touch pre-notification process, collecting key data which allows HMRC to risk assess claims as they come in, could be one way in which to target enquiry activity toward those most likely to abuse the system without it becoming highly onerous.
- Any change to the SME scheme must retain the payable credit element which is essential for nascent businesses which may be loss making in the short-term, but have the potential to become major UK success stories in the long-term. In 2019-2020, 476 knowledge-intensive companies were formed in the Cambridge region.
- The definition of expenditure which falls within scope should be made as clear as possible. Companies don't claim if they aren't sure whether a particular activity is eligible, undermining the effectiveness of the incentive. Government should provide more case studies and examples of good documentation to provide as clear a picture as possible around qualifying expenditure, particularly with regards to R&D in software and information technology.
- As the scientific and technological landscape changes over time, the UK should ensure that changes to a company's R&D cost base should be considered for R&D tax relief. Bringing data and cloud computing costs into the scope of the reliefs is good example of where Government has recognised the value in doing this.