Finance Bill 2023-24

Representation from the Association of Taxation Technicians (ATT)

Clause 2 and Schedule 1: New regime for research and development carried out by companies

Executive Summary

The suggested commencement date of April 2024 for the new, merged research and development (R&D) relief regime is too soon. This should be postponed until at least April 2025 to ensure that it can be delivered successfully.

Additional support for loss making, R&D intensive small and medium sized enterprises (SMEs) should be incorporated into the new merged regime, and not operated as a standalone scheme as is currently proposed.

The reduction in the threshold for a company to be considered R&D intensive which was announced at the Autumn Statement should be backdated to April 2023.

1. Background

1.1 Clause 2 and Schedule 1 introduce two measures:

- A new 'merged' research and development (R&D) relief scheme.
- Additional support for loss making, R&D intensive Small and Medium sized Enterprises (SMEs).

1.2 The new merged scheme is intended to replace the existing, separate R&D Expenditure Credit ('RDEC') scheme and SME scheme.

1.3 Additional support for 'R&D intensive SMEs' was first announced at Spring Budget 2023 as taking effect from April 2023. This additional support is to be provided through the existing SME scheme, rather than forming part of the new merged scheme.

1.4 To qualify as 'R&D intensive', it was originally proposed that at least 40% of expenditure eligible for corporation tax relief would have to be spent on qualifying R&D. At the Autumn Statement, it was announced that this threshold would be reduced to 30%.

2. The new merged scheme

2.1 Our main concern regarding the new merged scheme is the proposed timetable for its introduction.

2.2 Schedule 1 does not set a commencement date for the new scheme. Instead, paragraph 16 states that the new scheme will apply to accounting periods beginning on or after the 'appointed day', which will be confirmed by the Treasury in regulations. However at the Autumn Statement the Chancellor stated that the intention was that the new scheme would apply to accounting periods beginning on or after 1 April 2024. This leaves only a few months for legislation to be passed and for all parties involved to prepare.

2.3 We do not believe that April 2024 is a realistic date to introduce a new merged scheme. Such a timescale does not allow for proper consultation, or for the required systems and processes to be put in place by business, agents, software providers and HMRC.

2.4 The detailed consultation exploring the possibility of a merged scheme only closed in March this year, and we are concerned that, in an effort to be able to implement by April 2024, HMRC and HM Treasury have not taken sufficient time to consider the responses received.

2.5 This timescale also does not allow for the effect of recent administrative changes (including the introduction of additional information and claim notification forms) on levels of abuse and fraud in the existing R&D relief regimes to be properly monitored and considered.

2.6 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, but instead the appropriate time taken to ensure that any new scheme is well designed and operates effectively for all parties.

2.7 We would therefore recommend that the appointed day for commencement of the new scheme be no earlier than 1 April 2025. However, in the interests of providing certainty to businesses and advisers, the exact date should be confirmed and legislated for as soon as possible.

2 R&D intensive SMEs

2.1 Our main concern regarding the additional relief for R&D intensive SMEs is that this support will not be incorporated into the new, merged scheme once it is launched. Instead, the current SME scheme will be kept open, but only for those loss making companies who qualify as R&D intensive.

2.2 The introduction of the new merged R&D relief scheme was originally proposed as a simplification measure. However, what is currently being proposed does not represent any simplification. Instead, under Schedule 1, there will still be two separate regimes – the new merged scheme <u>and</u> a separate SME scheme which is only available to approximately 25,000 R&D intensive companies.

2.3 The introduction of new rules to define R&D intensive SMEs and the possibility of companies moving in and out of the two regimes as their expenditure profile changes will arguably result in an overall increase in the complexity of the R&D relief regime, rather than simplification.

2.4 Whilst we appreciate that the Spring Budget announcement commits the Government to providing some form of enhanced relief for R&D intensive SMEs, we do not see why this could not be delivered as part of the new merged scheme once that is launched. There would then be no need to continue operating a separate, standalone SME-like scheme, meeting the simplification objective and reducing the confusion of businesses moving in and out of two very different regimes if their expenditure profile changes.

2.5 Finally, we note that, despite the Autumn Statement announcement that the threshold for being considered R&D intensive will be reduced to 30%, the commencement rules in para 20(4) of Schedule 1 mean that this threshold remains at 40% for accounting periods which begin before the appointed day and end on or after 1 April 2023.

2.6 This means that a company with a 31 March year end will have a threshold of 40% for the year ended 31 March 2024, but a threshold of 30% for the year ended 31 March 2025. This adds an extra layer of confusion to an already complicated scheme.

2.7 We would therefore recommend that the commencement provisions are amended such that the new, lower 30% threshold applies from 1 April 2023. This could be achieved by deleting paragraph 20 of Schedule 1 in its entirety.

Association of Taxation Technicians
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Note:

The Association of Taxation Technicians

The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has over 9,500 members and Fellows together with over 6,000 students. Members and Fellows use the practising title of 'Taxation Technician' or ‘Taxation Technician (Fellow)’ and the designatory letters 'ATT' and 'ATT (Fellow)' respectively