



TAX INSIGHT Spring 2015

Tax for Innovative Companies

HMRC Consultation:

Encouraging access to Research and Development Tax Credits

UK R & D Tax Reliefs – Give me more!

UK R & D tax relief provides cash back of up to 32% of development costs. The UK lacks the complexity of many other EEA and US tax incentives, but there is still a poor uptake. We have been asked to feed into the Government Consultation launched in January 2015.

What is the Problem?

Awareness: HMRC estimate that fewer than 45% of the tech community actually claim all of the relief on offer, with many not claiming at all. This means a vital funding opportunity can be lost due to strict time limits.

Complex rules: When they do try, complex rules seem prohibitive. Sometimes the use of a non-expert advisor leaves cash on the table or carries the risk of a 100% penalty for getting the Company's tax return wrong.

Why now?

It has been some time since the last consultation on R & D, which culminated in the

publication of the Dyson Report 'Ingenious Britain', in March 2010. This triggered dramatic increases in R & D relief rates, but there is still an 'innovation gap'. A large rise in incorrect claims has left HMRC in a dilemma.

Current issues with R & D

The tax relief is generous for profitable companies, but for loss makers, the R & D tax credit has actually been in decline, and provides only half the tax rate of relief. As it is linked to annual accounting data, it is slow to kick in. Claiming a grant for R & D compromises future tax relief breaks for the life of the project. Venture capital flows and group funding can cause similar issues.

HMRC Process:

Can a case be made for simplifying the legislation? As the SME relief is an EC 'State Aid', removing the EC directives seems unlikely. Experience in France and Australia where tax authorities have singular R & D codes shows these can be applied stringently frustrating many bona fide R & D claimants.



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What is to be done? The multi layered legislation can be a positive. If the design of the rules were simplified, would a simple self-assessed tick box remove the fear of penalty or retraction of R & D tax relief? Rules can provide an assurance when followed.

UKSPA

The UKSPA community is at the forefront of UK R & D. We are feeding the following suggestions:

A 'Pure Tech' Relief - for UKSPA and incubator Companies. This would ease the complex definition barriers and provide greater certainty.
Accommodating grant funding so that R & D tax reliefs are not compromised in latter stages of development work.

A 'First Year Allowance' providing relief at the earliest opportunity.

Faster repayments: Similar to the Video Games and Creative Sector reliefs, base relief on a VAT style quarterly repayment. An annual balancing adjustment could align the relief to the annual accounts.

Unfair contracts: Removing onerous 'subcontractor' rules

halving R & D relief for SME's drawn into contracts assigning IP.

Large Companies

The Consultation excludes large companies -now endowed with an R & D Expenditure Credit- even though many still base their R & D operations outside the UK and the support given has actually fallen back to its 2009 level (HMRC Statistics Report, August 2014).

Tax Insight UK

Based on The Surrey Research Park we are part of the UKSPA community offering expert advice for Members on all aspects of R & D and alternative funding.

Our Corporate Tax Partner, Maria Kitt is a leading tax authority, lecturing to Accountants and In-house R & D Companies.

Her book '**R & D Tax Reliefs, Bloomsbury Press**' is the UK's first reference point for this important tax relief. To discuss any of the issues affecting your business contact one of our Partners today.

Tax Insight
Spring 2015 Edition