



TAX INSIGHT UK

UK R & D Tax Reliefs

BREXIT – Future R & D reliefs for UK companies

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Tax for Innovative Companies

MARIA KITT, Corporate Tax Partner at Tax Insight UK takes a look at 'Brexit' and its potential impact upon innovative companies in the UK.

Wrong decision, wrong time; or right decision, right time?

On the 23rd of June 2016, yesterday, the U.K. decision to 'Brexit' was made. Only history will inform us of the prudence of that momentous decision, or any other, but the U.K.'s scientific and technology must respond more quickly. This Insight sets out some of the immediate consequences and opportunities to be grasped.

Future of the U.K. RD reliefs

It will take time and a post Brexit budget to glean the government's attitude and commitment to the innovative economy and R & D tax reliefs in particular. The U.K government's published statement pre Brexit showed a commitment to continue to provide fiscal incentives for innovation and science, post Brexit. *See Parliamentary Committee statement blog published on 14 April 2016.* Whilst this lacks detail there is a clear will to continue with the relief infrastructure and the recognition of the huge importance of innovation and science to the UK economy.

R & D as an EU State Aid

SME R & D reliefs were classified as a State Aid; subject at all administrative and legislative stages to EU approval. The U.K. Reliefs have been funded autonomously by the Exchequer, and were not financially bound into the provision of cash from the EU.

Large company reliefs have never been regarded as a State Aid.

The EU Aid status set a project cap of 7.5m Euros - this limit was rarely exceeded in practice. It is likely to be retained post- Brexit under broader OECD tax harmonisation policy.

Post Brexit Budget date

Constitutionally this is unlikely to take place until October. But experience shows us that tax legislation can change with brutal and immediate effect.

What this does provide, is a ***window of immediate opportunity***, to review and submit early or potential claims for reliefs. The UK tax system is better equipped to progress estimated relief claims than it is to accommodate companies left behind by swift legislative change.

Grant funds

It would be extremely unlikely for EU grant assistance to be revocable in the hands of the many UK companies and institutions which have received



grant aid. The Horizon 2020 programmes are pan European but equally too they are industry and technology focused. This means non EEA countries can and indeed have accessed Horizon 2020 grant funding.

Innovate UK has for the immediate future, record levels of targeted grant funding available for the UK innovative economy. This is likely to be unaffected by Brexit.

EU & Non EU operations

Fortunately the UK tax relief rules are non territorial and UK companies may carry out RD operations anywhere in the world. Any perceived geographical shrinkage post Brexit is therefore unlikely to impact upon the reliefs available in UK R & D cost centres wherever located. The UK will still be in a position to adjust to labour market shifts freely.

Post Brexit we would be surprised to see insular ties suddenly placed on UK R & D performers.

Equally, we would not expect to see intellectual property registrations make an unwelcome reappearance.

Currency fluctuations

As ever, currency gains and losses are recognised as part of the U.K. Company's' taxable profits or losses. Averaging calculations will probably weaken the impact of any immediate currency fluctuation on the bottom line.

Independence Day

If this is to be a new cornerstone, it will hopefully acknowledge the true economic importance of the U.K's innovative economy and its contribution to economic growth over the last two decades. It's potential to lead the way into new global market places is unquestionable. UK R& D growth should continue unfettered and with its tax infrastructure unimpeded or further improved.

For more information on innovative tax reliefs and grant support:

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UK R & D Tax Reliefs – Bloomsbury Professional Press

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