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## TAX INSIGHT UK

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### Spring Budget -

### R & D Tax Review

### March 2017

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### Tax for Innovative Companies

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**Maria Kitt, Tax Partner at Tax Insight UK, reviews the 'Global Economy' Budget Speech and in particular the Government's Corporate Tax R & D Review.**

As more and more Companies continue to claim R & D tax credits and reliefs, the Budget published assurances to 'optimise and promote' the UK's R & D tax scheme. This is most welcome and places tax incentives at the heart of the innovative economy. Additionally targeted funding was announced for research funding and advanced technologies such as robotics and AI.

The main 'boost' in the Budget for SME's was the reduction of corporate tax rates, reaching 17% by April 2020.

For larger companies, improved access to tax credits is also welcome.

#### **Simplifying R & D - Corporate tax review**

The Budget announced increased support to '*improve the effectiveness of R & D tax incentives*' The first of hopefully many more such steps is targeted at large companies, claiming 'RDEC'. The RDEC calculation is complex in its current form, and taken within the context of group wide tax liabilities and payments. We

await the detail of the change with interest. Additionally, awareness of the reliefs via social media and advertising is to be promoted.

#### **Research funding**

Building upon the Industrial Strategy Green Paper (see December briefing), the Budget committed a further £300m for UK research projects, i.e. funding for 1,000 Ph. D places.

#### **R & D for SME's**

The simplification of RDEC will benefit SME's performing subcontracted R & D tasks. Otherwise, the rate of reliefs and credit remain unchanged at their highest ever level - 130% / 14.5% for FY 2017 and beyond.

#### **Reduction in corporation tax rates**

From FY 2017, corporation tax is reduced to 19%, and from FY 2020, 17%. One impact upon SME's will be to reduce the unjustified difference between the rate of RD tax credit (14.5%) and the set off or carry forward of corporate tax losses at 19% / 17%..

As most R & D tax relief claims are made by SME's, a welcome and positive change.

**NIC:** To drive a fairer economic 'mix', the Chancellor announced changes to NIC levies to further

drive down differences between employed and self-employed tax payers. Fall-out has included criticism of the continued ignorance of large 'employers' NIC contributions avoidance in the gig economy. Similarly, lack of further progression of the 'Google tax' tinged the 'fair economy' proposals.

### Dividend taxes

The Chancellor has continued to erode previous advantages of dividend payments through OMC's. Pension planning remains a useful and effective alternative for those affected, particularly for RD planning purposes.

### Brexit planning

Although conspicuously absent from the Budget speech, the Government have continued to provide assurance on the continuity of RD and intangible asset reliefs for the Sci / Tech sectors. We await further detail as 2017 progresses.

### Legislative process

We are often asked when the Budget changes take effect. Most of the Budget proposals will be published in the 2017 Finance Bill which following legislative drafting and debate in Parliament will formulate the 2017 Finance Act and become law after the royal assent date (usually in July).

### Insight – UK Tax and the UK Tax Budget

The UK has traditionally levied the burden of taxation upon individual taxpayers through income tax and national insurance contributions and HMRC's published 2016 accounts and Budget statement shows a continuance of this trend.



Extract – HMRC Annual Accounts 2016, UK tax revenue streams £ bn.

The Spring Budget will therefore retain the stable and reducing UK corporate tax base, whilst bring 'affordable' progression to the funding available for innovative companies.

### Contact points:

We advise innovative companies upon their special situation and how to maximise tax incentives and reliefs.

If you would like to discuss any of the above, please contact any of our tax partners today.

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#### March 2017

For more information on innovative tax and grant support: Follow our blog and visit our website:

[www.taxinsight.co.uk](http://www.taxinsight.co.uk)

#### Read our book:

**UK R & D Tax Reliefs – Bloomsbury Professional Press**

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