



Research and Development Changes (Updated May 2023)

R&D changes

At Spring Budget 2021, the Government launched a review of the two research and development (R&D) tax relief schemes, namely, SME tax relief and RDEC (the 'large company' scheme). The objectives of the review were to ensure that the UK remains a competitive location for cutting edge research, that the reliefs continue to be fit for purpose and that taxpayer money is effectively targeted.

Alongside this, the Government published a consultation which explored the nature of private-sector R&D investment in the UK, how that is supported or otherwise impacted by the R&D relief schemes, and where changes may be appropriate.

At Autumn Budget 2021, the Government announced that the R&D tax reliefs would be reformed to support modern research methods by expanding qualifying expenditure to include data and cloud costs, to capture more effectively the benefits of R&D funded by the reliefs through refocusing support towards innovation in the UK, and to target abuse and improve compliance. Further announcements were made during the statements in autumn 2022 and Spring Budget 2023. A number of changes are made and are detailed below.

Changes in rates

Changes are made to:

- reduce the additional deduction for R&D costs incurred by a company within the SME scheme from 130% to 86%, with similar changes for pre-trading expenditure and surrenderable losses;
- reduce the rate of payable credit for the surrender of losses by such a company from 14.5% to 10%; and
- increase the rate of the R&D Expenditure Credit from 13% to 20%.

A higher rate of relief for loss-making R&D intensive SMEs will be introduced. SME companies for which qualifying R&D expenditure constitutes at least 40% of total expenditure will be able to claim a higher payable credit rate of 14.5% for qualifying R&D expenditure. Full details of this change are yet to be issued.

These changes take effect in relation to expenditure incurred on or after 1 April 2023.



Requirement to make claim notifications

A new requirement is introduced for claimants of both R&D reliefs to provide a claim notification. Broadly, a company may not make a claim to either relief unless it has made a claim notification within six months of the end of the accounting period. This rule would not apply if the company has made an R&D claim during the last three years. A similar change is made to the rules which allow SMEs to claim a repayment for surrendering a qualifying loss. Full details of the form of a claim notification are yet to be issued.

Relief for R&D expenditure on data and cloud computing

The definition of software costs is amended to allow for an amount paid by the company in respect of software, data licences and cloud computing services to qualify as an R&D cost.

Information to support a claim

A new requirement for claimants to provide the additional information to support a claim will be introduced. If this information is not supplied the claim will be invalid. This amendment has effect in relation to claims made on or after 1 August 2023. Again, full details are not available, but it appears as though the additional information:

- will have to break the costs down across qualifying categories and provide a description of the R&D;
- each claim will need to be endorsed by a named senior officer of the company; and
- additional information and claim notification forms will need to include details of any agent who has advised the company on compiling the claim.

The changes above generally apply for claims relating to accounting periods which begin on or after 1 April 2023.

And finally

The previously announced restriction on some overseas expenditure will now come into effect from 1 April 2024 instead of 1 April 2023. This will allow the Government to consider the interaction between this restriction and the design of a potential merged R&D relief.

Contact us should you require advice and assistance - Viraj Mehta, Tax Partner – viraj.mehta@bournerbullock.co.uk