

UK Research and Development (R&D) Tax Relief is Changing – What do You Need to Consider?

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By **Paul Webb**, 11th November 2022

From 1 April 2023, a number of changes are expected to the UK Research and Development (R&D) Tax Relief scheme. This Article summarises the key points arising from the July 2022 HMRC draft legislation for R&D tax relief changes, originally announced in the 2021 UK Autumn Budget.

These changes will take effect for accounting periods beginning on or after 1 April 2023. The changes will impact companies claiming under either of the two schemes (SME or RDEC).

The UK Government has a target to raise investment in R&D to 2.4% of UK GDP by 2027 and R&D tax relief forms part of that goal, by reducing the cost of innovation for UK companies.

UK R&D Tax Relief

UK Research and Development (R&D) tax relief can prove an extremely valuable tax relief and, for companies carrying out significant qualifying R&D projects, it may mean not having to pay any corporation tax for many years or even claiming a repayment from HMRC.

For small to medium sized enterprises (SMEs), a deduction of 230% of the amount spent on R&D can be made from taxable profits, reducing the corporation tax due. For loss making companies, the scheme allows relief upfront as a cash payment of 14.5% of the 'surrenderable loss.'

For further information regarding the benefits available and the process that needs to be followed, please contact: advice.uk@dixcart.com

What are the Key Changes?

◦ **Extending Qualifying Expenditure**

The good news is that R&D expenditure categories will be extended to include the costs of datasets and cloud computing – however, these costs need to clearly align with direct R&D and cannot be included in R&D claims where these costs only relate to indirect supporting activities.

In addition to this, R&D in pure mathematics will now qualify for relief and can form part of the qualifying R&D activities of the claimant.

◦ **Refocusing the Reliefs Towards Innovation Undertaken in the UK**

One of the most fundamental changes in the Autumn Budget was to refocus the relief provided to activities performed in the UK or qualifying overseas expenditure.

◦ **UK Expenditure**

Relevant research and development must be undertaken in the United Kingdom. As such, subcontracted R&D work, and the cost of externally provided workers (EPWs), will be limited to work undertaken in the UK.

◦ **Qualifying Overseas Expenditure**

The exemption to the above, is where work undertaken outside the UK is necessary due to geographical, environmental, or social conditions not present or replicable in the UK.

The cost of the work, and availability of workers, are specifically excluded as factors. This list is not exhaustive and, in the short term, is likely to create greater uncertainty as to what might be seen as meeting these criteria.

It is worth noting that, to date, there is nothing in the draft legislation that specifically addresses claims for the cost of staff working on projects in an overseas branch of a UK

entity – it is hoped this will be clarified as the Bill goes through the Parliamentary process.

Tackling Abuse

In order to support HMRC's fight against abuse of the R&D schemes, new due diligence and filing processes will be required through a digital system.

The changes to be introduced to the R&D claims submission process include:

1. claims be made digitally;
1. the categories of qualifying expenditure incurred need to be disclosed, and brief details provided of the R&D activities;
1. claims need to be endorsed by a named senior company officer;
1. the company must inform HMRC in advance of its intention to make a claim within six months of the end of the period to which the claim relates, unless the company has claimed in one of the preceding three accounting periods; and
1. the details of any agent who has advised the company in making the claim needs to be provided.

The most significant change is point 4. The effect of this is that new claimants will now only have a six month window in order to identify that they will make a claim, as opposed to the current two year window of opportunity.

What can your Business do to Help Maintain their R&D Tax Relief Benefits?

On the back of the above proposed changes, businesses that maintain all, or part, of their R&D activities overseas will need to re-evaluate their potential R&D claims. If your business falls into this category, you will need to consider the practical, commercial, and cost implications of maintaining your current structure versus onshoring to the UK.

We have identified the pros and cons of each scenario below.

Scenario 1: Keeping your R&D Activities Overseas

Benefits of keeping your R&D activities abroad:

- commercial needs,
- expertise,
- most cost-effective option,
- changing something that is not broken. You have the right people, infrastructure and processes in place so why change it?

With the introduction of the new rules, the obvious loss is that qualifying overseas expenditure will be disqualified from 1 April 2023.

However, the impact of this depends on the type of business you are. For example, if you have an R&D intensive business with the majority of costs arising from overseas activities, you should expect to see a substantial reduction in your R&D tax relief claims as opposed to one that is not R&D intensive.

Scenario 2: Relocating your R&D Activities to the UK

As discussed above, the notable advantages and sacrifices of keeping your R&D activities overseas are in turn, for the short-term anyway, the opposite if you were to relocate the activities to the UK. This will of course depend on each business.

The main benefit of relocating your R&D activities to the UK is inevitably that it will qualify for R&D relief.

However, the change will effectively be like starting new again. The downsides are; the potential difficulty in finding new suppliers and skilled workers, keeping within the budget, costs of relocating/restructuring, training, legal and tax considerations for both company and any employees relocating, etc.

Again, this largely depends on the business as, for some, this may simply be a matter of finding new suppliers within the UK.

Get in Touch

If you would like to discuss the UK R&D tax relief changes featured in the July 2022 draft legislation, or if you would like professional advice regarding strategies to help maintain [UK R&D tax relief benefits](#), please get in touch with [Paul Webb in the Dixcart office in the UK](#) or email: advice.uk@dixcart.com