

SPRING BUDGET 2023

R&D TAX RELIEF CHANGES

Background

R&D tax relief is currently under significant scrutiny from HMRC. There is now an increased number of compliance officers that have been recruited to carry out additional compliance checks, also known as tax enquiries, into R&D claims. In this fact sheet, we aim to make you aware of the changes to the tax relief on R&D that were announced in the latest Spring Budget.

The Government recently announced important changes to the R&D scheme for companies claiming under either the Small and Medium Enterprise (SME) scheme and/or the RDEC scheme. These changes impact on the amount of tax relief/repayments due in respect of expenditure incurred on or after 1 April 2023.

Current and New Tax Benefits

The headline RDEC rate will increase from 13% to 20%, albeit this is a taxable credit. In contrast, the SME additional tax deduction will decrease from 130% to 86%, along with a decrease in the rate of SME tax credit from 14.5% to 10%, except for loss making SMEs that are R&D intensive. If an SME's qualifying expenditure is at least 40% of their total expenditure, they will be classed as R&D intensive and able to claim a higher payable credit rate of 14.5% for qualifying R&D expenditure.

The current and new tax benefit of making an R&D claim under the SME and RDEC schemes is summarised in the table. If you do not have a 31 March year end, then you will need to apportion your qualifying R&D expenditure pre and post 1 April 2023 accordingly.



A Brief Overview of the Changes

The changes implemented from 1st April 2023 impact the amount of relief that can be claimed, the types of activities that will qualify and the way in which businesses can claim relief. These changes have been introduced to ensure "the UK remains a competitive location for cutting edge research", "the reliefs continue to be fit for purpose" and "taxpayer money is spent as effectively as possible".

If your accounting period starts on, or after 1 April 2023, you will need to pre-notify that you are making a claim if it is your first claim, or if you have not made a claim in the last three years. The notification must be made by six months after the period in which you intend to make a claim. HMRC have indicated that late notifications will not be accepted.

	SME REGIME		LARGE COMPANY REGIME (RDEC)	
	Up to 31 March 2023	From 1 April 2023	Up to 31 March 2023	From 1 April 2023
Profitable company	130% uplift in costs = 24.7% net benefit	86% uplift on costs = 21.5% net benefit	Headline rate 13% = 10.5% post tax	Headline rate 20% = 15% post tax
Loss making company	Costs plus 130% uplift = 230 x 14.5% repayable credit = 33.4% subsidy	Costs plus 86% uplift = 186 x 10% repayable credit = 18.6% subsidy	10.5% subsidy	15% subsidy

Change of Rates

This change to the rates is expected to significantly impact existing claimants' budgets and cash flow, with an overnight boost to companies claiming under the RDEC scheme. If you are a loss making company claiming under the RDEC scheme, you will be able to claim an additional £4,470 for every £100,000 of qualifying expenditure. But for the majority of loss claiming companies who claim under the SME scheme, there will be a tax credit reduction of £14,750 for every £100,000 of qualifying expenditure.

Overseas Expenditure

There have been significant changes to overseas expenditure. For accounting periods on or after 1st April 2024, you are only allowed to outsource work carried out in the UK, although there are exemptions, which the government have defined as qualifying overseas expenditure (QOE).

Cloud Computing

Qualifying expenditure will be extended to include data, cloud computing and pure mathematics. Data and cloud computing R&D expenditure will be especially beneficial for small to medium businesses in the tech sector as cloud computing often is associated with high costs and can act as a barrier for business growth.

Datasets

The Treasury stated that "datasets or data storage are as critical to R&D as raw materials and labour input." Expenditure on datasets via licenses used directly for R&D in a qualifying R&D project will qualify for relief. But in a situation where an access agreement covers multiple datasets, of which some are used for non R&D purposes, costs must then be apportioned.

If the dataset can be resold or has a lasting value to the business beyond the scope of the project, then the company will not be able to claim for relief on the dataset.

Pure Mathematics

There has been a lack of definition for pure mathematics from HMRC when it comes to qualifying for R&D expenditure, causing problems for companies over the years.

Pre Notifications of Claims

If your accounting period starts on or after 1 April 2023 and you are making your first R&D claim, or if you have not claimed within the three previous accounting periods, then you must inform HMRC of your intention to make a claim within the six months of the end of the accounting period to which the claim relates.

If you have not made a pre-notification within the six months of the end of the accounting period, you will not be permitted to make a claim for that period. If you have made a claim within one of the previous three periods, then you will not need to pre-notify.

More Information on R&D Claims

Further changes to R&D claims will come into play on 1 August 2023. From that date, all R&D claims must be made digitally and you will have to provide a breakdown of the costs claimed across the qualifying categories of expenditure, including a brief description of what R&D activities have been undertaken.

As part of HMRC's new scrutiny on R&D, claims will need to be endorsed by a named senior officer in your company and when making a claim you will now need to include details of any agents that advised you to make the claim. The need to provide this additional information can be avoided if you submit your claim before 1 August 2023.

If you have any questions in relation to the latest R&D tax relief changes, please speak with your local Moore Adviser.

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