

R&D consultation – further details (Lecture B1309 – 16.06 minutes)

Data and cloud computing costs

The proposals are to extend the R&D incentives for acquisition of datasets used in R&D via a licence payment. However, this is restricted to datasets used only for R&D purposes. If the claimant can sell the dataset or if the use/ commercial exploitation of data extends beyond the R&D project then these costs would not be eligible.

In addition, cloud computing costs may be eligible if they directly relate to R&D and this would include the computation, analysis, and processing of data for R&D. However, some large costs linked to servers and storage would be excluded from the R&D incentives claims.

HMRC also clarify that staff costs for employees engaged in the collecting, cleansing and analysis of data for R&D purposes may be included in the claims.

Refocusing R&D Incentives on UK Activities

The proposed changes will severely restrict UK R&D tax incentives for overseas R&D. The key changes proposed are as follows:

- Subcontracted out R&D will only qualify for R&D incentives where the third party undertakes the R&D in the UK;
- Under the research and development expenditure credit (RDEC) regime, payments to qualifying bodies (e.g. universities or health bodies) to undertake independent research will only qualify if the activities are undertaken in the UK; and
- Payment to externally provided workers will only qualify where the workers' salaries are paid through a UK payroll.

Tackling abuse and compliance

In 2019, UK businesses claimed R&D tax relief of £47.5 billion whilst the Office of National Statistics estimates businesses only carried on R&D costing £25.9 billion that was privately financed in the UK by private businesses. Some but not all of this perceived gap may be explained by overseas R&D but clearly HMRC have concerns over the cost driven by spurious or excessive R&D claims. The changes aiming to tackle this are:

- All claims will have to be made digitally;
- Digital claims will require more details to substantiate the claims (unclear precisely what this will mean and in what format);
- Each claim will be endorsed by a named senior officer of the company;
- Companies will need to inform HMRC in advance that they plan to make a claim (unclear if this is at a project or company level, or what the time frames will be); and
- Claims will need to include details of any agent who has advised the company on compiling the claim.

Changes to address anomalies in the R&D Legislation

Several changes are being introduced including:

1. ensuring the time limits for R&D claims are two years after the end of the claim period;
2. that companies do not fail the going concern test for technical reasons (i.e. there is a transfer of a trade); and
3. that R&D tax relief can be claimed provided the expenditure will be paid within two years of the claim period.

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