



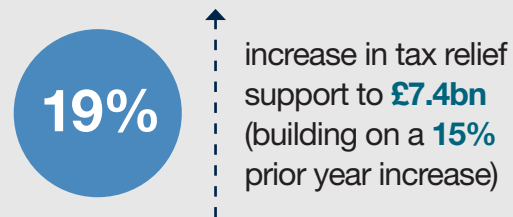
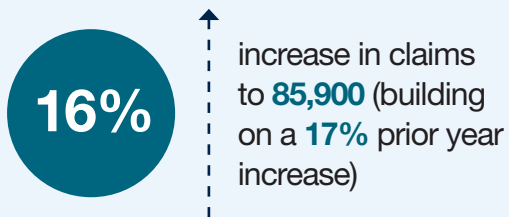
# UK R&D Tax Relief: With an increase in R&D tax spend, comes greater scrutiny. A&M is prepared for this, are you?

The UK R&D Expenditure Credit (RDEC) benefit for large companies has recently increased to a gross 13 percent, and for small and medium-sized enterprises (SME), it is up to 33.35 percent of qualifying expenditure. These benefits can offset tax liabilities or, crucially in these challenging times, be refunded net of tax as cash.

The Chancellor has announced that following the consultation launched at Spring Budget 2021, R&D tax reliefs will be reformed to target abuse and improve compliance. These changes will take effect from April 2023 and the two key upcoming changes are (1) the addition of data and cloud costs and (2) focusing support towards innovation conducted in the UK only. Please see “HMRC Treasury consultation” overleaf for more details.

HMRC’s annual statistics on the UK R&D tax regime confirm the increasing popularity of these generous benefits.

## UK R&D Tax Scheme Continues to Grow in Volume and Size of Claims



## How A&M Can Help Your Business

The A&M R&D team wants to help your business claim the cash benefits it is entitled to. We have the proven processes to guide you through setting up the correct claim, and our benchmark data helps avoid shortfalls and flags risks for generating overzealous claims. In addition, our team is ready to partner with your in-house engineering teams to ensure that you realize the maximum cash benefit.

We can help guide your business teams in considering the following:

- **In-house technical capabilities** – are your in-house engineering, software development or manufacturing functions already making R&D claims? If not, now is the time to consider it;
- **Cash is king** – in today’s environment, cash is even more critical. The UK government’s support of the R&D tax scheme continues to provide real cash for businesses. Now is the time to seize the opportunity;
- **EBIT improvement** – RDEC is an “above the line” credit; it improves EBIT and potentially increases valuation multiples, a benefit that could be an important part of your business planning;
- **Digital transformation** – if your business is undergoing digital transformation projects, potential R&D qualifying activities are being carried out that you may benefit from.

The A&M R&D team helps clients better understand their R&D position and eligibility for benefits. In recent years, we have helped our clients to secure a cash value of over £25m across various sectors and company sizes.

## Increased Government Scrutiny Requires Trusted Advisors Who Understand Scheme Requirements

However, to place in context, the **£7.4bn of R&D** relief is **60%** of the projected revenue from the recent increase in **National Insurance**.

As the UK R&D scheme grows and the government's total relief increases, it is attracting increased political attention and greater HMRC scrutiny to ensure the taxpayer is receiving **good value for money**.

- **Greater HMRC scrutiny** – the significant relief will inevitably result in greater examination. HMRC recently recruited over 100 R&D inspectors and increased enquiries into R&D claims. Claimants should consider a quick 'risk review' to flag areas of concern ahead of potential HMRC enquiries. If HMRC enquiries into your existing claims, our team can assist you in conducting a thorough risk review and help you navigate the enquiry process, collaborating with you and HMRC to achieve a successful outcome.
- **Increased HMRC activity in pursuing fraudulent cases** – recent headline news of three people jailed for a total of 25 years for their involvement in a fraudulent £29.5m claim, as well as three recent First Tier Tribunal decisions concerning R&D claims, demonstrate that companies must prepare claims carefully. Our team closely follows the changing landscape and can offer your business the timely insights needed to prepare robust claims efficiently.
- **HMRC consultation** – the consultation closed in summer 2021 and the Autumn Budget 2021 revealed the initial details of the reform of the R&D scheme with greater focus on targeting abuse and improved compliance. The introduction of cloud computing and data costs brings the UK R&D scheme in line with modern R&D expenditure. However, there is an implication that cost of R&D funded or led from the UK but performed overseas may no longer qualify for relief. While reform to target abuse is overdue, this change will undoubtedly impact UK companies legitimately using a global R&D resourcing model to support UK-led R&D projects collaboratively. The reform will not come into effect until April 2023 and further details of these changes are outstanding (and the impact has not been costed) but by aligning with less beneficial international R&D regimes, one of the most attractive features of the UK regime is being removed. We can help your business navigate the direction in which the R&D tax schemes are headed so that your company, whether a start-up or a global group, makes the right investment decisions for the future.

### Contact the A&M R&D Tax Team to Learn More:



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Alvarez & Marsal Taxand is a founder of Taxand, the world's largest independent tax organization, which provides high quality, integrated tax advice worldwide. Taxand professionals, including almost 550 partners and more than 2,500 advisors in 50 countries, grasp both the fine points of tax and the broader strategic implications, helping you mitigate risk, manage your tax burden and drive the performance of your business.

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