

CONSULTATION

# HMRC Treasury call for evidence: R&D Tax Reliefs Consultation

Submission by: National Centre for  
Universities and Business (NCUB)

Date: June 2021

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**Date: 2 June 2021**



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## Overview

R&D represents a major market opportunity for the UK. The top 1,000 R&D intensive businesses in the world spent over \$781bn on R&D in 2017 alone and in 2019, expenditure on research and development (R&D) performed by UK businesses grew by £822 million to £25.9 billion<sup>1</sup>, an increase of more than a third (37.3%) in the last decade.

Achieving the 2.4% target to raise UK spend on R&D to 2.4% by 2027 and 3% in the longer term, [NCUB commissioned research](#) revealed it will require businesses to spend an estimated £17.5 billion more on R&D in 2027 than they did in 2017<sup>2</sup>. To illustrate the scale of the ambition to increase R&D spending articulated in the R&D Roadmap, the average increase in privately funded R&D expenditure per year from 2007- 2018 was £0.9 billion. The average increase required to meet the Government's target between 2019 and 2030 is more than double, £1.95 billion, and necessitates significant percentage increases year-on-year over the next seven years. However, there is no clear integrated plan or structure to engage the private sector in making this investment.

At the request of UKRI, NCUB convened an [R&D Taskforce](#) in Summer 2020 to advise the Government about how they can meet the 2.4% target. The Taskforce, made up of university and business leaders from across the UK, advised that the Government has an important role to play in stimulating and creating an effective innovative economy. First, governments affect how markets operate and can either encourage or stifle innovation through regulation<sup>3</sup>. Second, governments are important investors in innovation. Third, government procurement has a significant role to play as first customer and route to market for new technologies, small companies and start-ups.

It is important to consider within this context that an increase in corporation tax to 25% announced earlier this year is likely to negate many of the advances and incentives offered to businesses within say, R&D tax reliefs. A headline corporation tax of 25% sits well above other advanced nations competing to attract business' R&D spend and will deter many multinationals from coming to the UK to invest.

Understanding the drivers for businesses' R&D investments is fundamental to recognising the importance of R&D tax reliefs. R&D tax reliefs sit within a wider ecosystem of incentives and considerations that affect business' decision-making including the UK's extensive regulatory system, access to skills, labour laws, robust IP frameworks etc. This is particularly important in the foreign context where our members tell us that global investors may not have access to the positive aspects that we in the UK take for granted. Therefore, key to driving further business investment is understanding that R&D tax credits alone are unlikely to materially affect a company's decision as to where to locate. Grants that help support set up costs, access to shared infrastructure and facilities are likely to weigh much more heavily and be more tangible than an R&D tax credit.

Having said that, as this broader area of tax relief matures and embeds, it is increasingly being picked up by Company Boards – and not just as a nice to have. The significant returns are now being recognised by the CFOs and finance departments in many firms. As R&D tax relief becomes even more mainstream, companies are seeking to budget it into their financial plans. Similarly, as companies become more cost conscious, and competition increases from countries with a better offer, it will be important for the UK to create a tax system that plays to the key drivers that motivate companies to invest.

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<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/businessenterpriseanddevelopment/2019>

<sup>2</sup> Oxford Economics. (2020). Modelling the impact of public R&D spending plans. Oxford Economics. Retrieved from [www.ncub.co.uk/reports/modelling-the-impact-of-public-r-d-spending-plans](http://www.ncub.co.uk/reports/modelling-the-impact-of-public-r-d-spending-plans)

<sup>3</sup>Bowman, S., & Westlake, S. (2020). Reviving Economic Thinking on the Right: A short plan for the UK. Retrieved from <https://revivingeconomicthinking.com/technology-and-innovation>

The Government has sent important signals to business with both an increase to R&D tax credits from 12 to 13% (announced at the Budget in March 2020) and this open consultation to consider the R&D tax reliefs system. A critical outcome from this consultation is ensuring the tax credit system continues to incentivise and attract R&D investment and continues to modernise and keeps pace with advances in research and development approaches. It also remains important that these measures are effective across the board from start-ups to large corporations and forms part of a wider portfolio of incentives addressing the wider tax and fiscal R&D system.

Realising the 2.4% target requires an even greater share of R&D investment performed by the global market to be captured in the UK as well as incentivising more of the 6 million SMEs in the UK to do more R&D. NCUB [evidence](#) gathered in collaboration with the Universities Commercialisation and Innovation Evidence Unit shows that business R&D expenditure is susceptible to economic downturns<sup>4</sup>. Business expenditure on R&D fell by a total of 5.0% during the financial crisis in 2008 and 2009 and employment in business R&D fell by 4.4% in the same period<sup>5</sup>. The impacts of a global recession resulting from the pandemic may take as long as two years for global R&D levels of activity to reflect the full effect. Therefore, government, businesses and universities need to raise their expectations as to the scale of investment required for R&D in the UK.

That is why NCUB welcomes Treasury's consultation on R&D tax reliefs. With the right incentives targeted at the right players at the right time and combined with other effective levers, R&D tax reliefs can act as a key ingredient to helping to stimulate the nation's recovery.

Due to the wide ranging nature of the consultation, we have provided answers only to the questions within our remit.

## Summary of key points and recommendations

- 1) Treasury should consider an RDEC-type scheme for SMEs which offers above-the-line reliefs.
- 2) Improving incentives is important, but it is equally important to make it as easy as possible for the benefits to be accessed.
- 3) If the two schemes are unified, it is important to tailor the scheme so it remains beneficial for a wide range of businesses.
- 4) Broadening out the definition of what qualifies for tax reliefs will enable more businesses to access R&D tax reliefs and therefore, incentivise more R&D activity.
- 5) NCUB welcomes the government's initiative to increase the RDEC relief scheme from 12% to 13% and would encourage the Government to go even further.
- 6) Given the role that private sector investment will play in helping the UK to meet the 2.4% target, it is important that incentives are targeted at securing the maximum value and investment from businesses.
- 7) Businesses need more targeted and generous incentives and support to help them recover from the financial declines brought on by the pandemic.
- 8) More businesses need to be made aware of the existence and benefits of R&D tax credits, particularly SMEs and startup firms.
- 9) It must be acknowledged that businesses do not make investment decisions based on one factor alone.
- 10) In order to level up across the UK, and attract more R&D to particular places, Innovation Collaboration Zones can help galvanise industry and academia around specific, defined commercial challenges.
- 11) Reduce the complexity of the system to reduce reliance on agents.
- 12) Promote the use of tax relief through wider actors in the innovation system.
- 13) Encourage working in partnership with universities and other actors in the research system.

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<sup>4</sup> <https://www.ncub.co.uk/reports/innovation-and-resilience-in-a-crisis-the-impact-of-covid-19-on-business-r-d>

<sup>5</sup> ONS, November 2019, Research and Development in UK Businesses 2018 Tables One, Four and Eight, <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/researchanddevelopmentexpenditure/bulletins/businessenterpriseanddevelopment/2018>

- 14) Understanding how the claims process and the R&D tax relief system works should not be limited to the role of accountants.
- 15) There is a need for more universities to move engagement from an ad-hoc basis to a more systematic basis, developing a strategy or programme of engagement which can then be more easily marketed to small businesses.
- 16) Simplify the system to enhance its accessibility.
- 17) Enhance access to data that could help to inform policy.
- 18) The definition of what qualifies for R&D tax reliefs should be broadened out to include more 'innovative' activities that drive productivity and growth.
- 19) SME new-to-firm innovations are critical to growth and productivity and must be recognised and rewarded.
- 20) Extend R&D tax relief eligibility to research in universities.
- 21) Late stage R&D is mostly ineligible for R&D tax relief but is critical for driving productivity and growth.
- 22) Tax relief should be expanded to include more data-driven R&D activities that are not currently recognised.
- 23) Definitions of eligible activities should include the costs of generating, purchasing, storing, using and analysing data which have been used to drive R&D and innovation in the UK.
- 24) Additional R&D tax relief should be extended to employee training or job creation at innovative companies.
- 25) R&D Tax Reliefs could play a part in better incentivising certain R&D activities.
- 26) A globally competitive "baseline" for R&D tax reliefs should be maintained across the board.
- 27) Differentiation should not significantly increase the complexity of the system.
- 28) Priorities should not change too frequently.
- 29) University research in areas of strategic importance should be eligible for tax credits.
- 30) Introduce an accreditation for eligible bodies/ companies to reduce abuse of the system and help combat complexity.
- 31) The Government should consider enhancing R&D tax incentives in particular places
- 32) Introduce clarity for eligible companies to qualify for levelling-up incentives.
- 33) Extend eligible costs for R&D tax relief to support the building of R&D capabilities.
- 34) NCUB is calling on the Government to consider equivalent incentives to R&D tax relief to encourage greater corporate venturing activity.
- 35) NCUB is calling on the government to introduce R&D tax credits that offset loss-making firms or individuals investing in R&D.
- 36) Better recognition of capital expenditure within UK R&D tax credits will make the UK tax system more internationally competitive.
- 37) NCUB recommends the government extends the Super Deduction scheme and annual investment allowance beyond 2023 and extending it to R&D qualifying relief.
- 38) NCUB recommends that the government introduces a cash credit RDA aimed at start-ups and SMEs.
- 39) Introduce a credit for companies registering IP ownership within the UK.
- 40) Retain tax relief on subcontracting outside of the UK.
- 41) Better promote the UK's R&D incentives globally.
- 42) Incentivise companies to come to the UK and invest in capital, rather than penalising companies that invest abroad.
- 43) How businesses outsource some of their services can result in the service falling outside of their claim.
- 44) The definition of 'medical' research within the current QIA definition should be extended to cover other relevant activity.

Question 1: Do you consider your company to be a research-intensive firm? How does your business benefit from the R&D reliefs (e.g. cashflow, reduced tax liability)? If your company is an SME that claims under both the SME tax relief and RDEC, what is your experience of using each scheme and how do they compare?

n/a

Question 2: Is there a case for consolidating the two schemes into one? What do you value about the design of the current schemes that might be lost if they were unified?

***Treasury should consider an RDEC-type scheme for SMEs which offers above-the-line reliefs.***

Businesses need incentives that are designed to help them to reduce their bottom line and bring more money back into their company. The replacement of the large company scheme in 2013 with the Research and Development Expenditure Credit (RDEC) has been welcomed by businesses eligible to access the scheme. For large companies, RDEC is a payable tax credit equivalent to 13% of qualifying R&D costs claimed and provides an above-the-line contribution back to the company. In contrast, for small and medium-sized enterprises (SMEs), there is a tax relief scheme which, though more generous (up to 25% for profit making companies and up to 33% for non-profit companies), is more complicated to apply for.

RDEC was originally introduced to make research and development (R&D) tax credits more visible for large companies in their company accounts and to provide a cash benefit for loss-making businesses. RDEC has two main benefits. First, it can be accounted for above-the-line in the company's profit-and-loss account, providing a positive impact on visible profitability in their accounts. In this way, it provides far greater stability compared to the previous large company and SME schemes. This makes it easier for companies to factor R&D relief into their investment decisions. Second, if the company has no tax liability, they can potentially receive a cash credit from HMRC. At a time when the UK is looking to support and nurture the next generation of companies, Treasury should consider an RDEC-type scheme for SMEs (especially for R&D-driven start-ups), which would offer them above the line returns and more profit visibility to plan their investment decisions. Designing R&D tax reliefs that are driven by what motivates businesses to invest, that is, to drive productivity and increase profit, ultimately leads to increased R&D investment.

***Improving incentives is important, but it is equally important to make it as easy as possible for the benefits to be accessed.***

[Evidence](#) shows that the number of *eligible* SME companies accessing R&D tax reliefs is low compared to the number that have claimed it (27%). This is because they are either unaware of the benefits or because they are viewed by smaller companies to be too complicated and burdensome. An [evaluation](#) of R&D tax relief for SMEs was conducted by HM Revenue & Customs (HMRC) in September 2019. Just over one fifth of claimants said the process was overly complicated. This came down to three main reasons: 1) difficulty identifying whether the project is R&D when applying (33%); 2) difficulty understanding what to do when applying for relief (31%) and; 3) difficulty identifying the qualifying expenditure (25%). A final factor that emerged during qualitative interviews was the "ambiguity of what was within the scope of R&D expenditure". It is clear that the current tax relief scheme may not be receiving the maximum benefit, which is to increase R&D activity and incentivise more companies to invest. Allowing SMEs to trial the system may be one way to ensuring the process is simple to use and remains accessible.

***If the two schemes are unified, it is important to tailor the scheme so it remains beneficial for a wide range of businesses***

If the generosity through the current SME relief scheme were lost, loss making firms or those just starting out would struggle to see the benefit from the lower rate of return currently offered within the RDEC scheme. The Government should actively consider ways to ensure the system remains attractive and suitably tailored. Pre-revenue start-up firms investing in R&D, for example, could be offered a no cap incentive for their R&D costs. Further, start-ups, particularly those backed by venture capital with an over 25% stake from a large company, should still be eligible.

Spain is widely [recognised](#) for its simplified tax system and offers a range of tax credits based on where in the market the innovation is happening- from new to firm to new to market innovation. This helps to incentivise a wider range of companies at different points in their innovation journey. Adopting a single portal approach is welcome in order to help simplify the system but it must be tailored to suit different types of businesses.

***Broadening out the definition of what qualifies for tax reliefs will enable more businesses to access R&D tax reliefs and therefore, incentivise more R&D activity.***

Increasingly, there is recognition amongst policy-makers that new to firm or intra-firm innovation, which is often described as incremental innovation, is just as important as new to market innovation in improving the productivity of the UK. This can include simple activities such as identifying or adopting a new technology or software but which could have significant impact on a company's growth and development. For a business, R&D is just one part of the innovation process. To see a return on investment from exploratory R&D, businesses also have to invest in developing business applications, design, revenue models and markets for new products and services. These are activities that generally require more time and resources, than the inventions themselves. New-to-firm innovation is an area where SMEs are highly active (according to the Federation of Small Businesses 76% of SMEs said they had introduced some type of new innovation into their business in the last 3 years). A new scheme, if unified, could look to offer a range of credits that incentivises new-to-firm innovation, and additional credits offered for later stage new-to-market innovation. If the UK is to meet the ambitious 2.4% target, incentivising private sector R&D investment, wherever it is found, should be a priority.

Tax credits schemes can also be targeted based on government priorities as we set out in our response to questions 10 and 11.

**Question 3: What do you think explains the difference in additionality between the two schemes? How could the schemes be improved to incentivise the R&D your business does or might consider doing? Can you give evidence to support your suggestions?**

***NCUB welcomes the government's initiative to increase the RDEC relief scheme from 12% to 13% and would encourage the Government to go even further.***

UK public funding in R&D is currently around 0.5% of GDP, which is much lower than the levels of 0.7%-0.8% invested by the US, Germany and France. The ratio of public and private spending on R&D in the UK is above OECD average, but the UK's total R&D spending is lower because both public and private sectors invest proportionately less. NCUB's [Research to Recovery Report](#) showed that cumulatively the UK has spent £44 billion less on R&D in the last ten years than it would have if it had invested at the OECD average. This investment would surely have led to further advances in technology, medicine, energy and strengthened our economic and industrial base.

[Evidence](#) from the CBI showed that for SMEs operating in the UK, R&D tax incentives are relatively generous by OECD standards, whereas for larger firms, they lag behind. For large profitable firms the R&D tax credit is less than half as generous as for some of the UK's international competitors. This was despite the large company rate being increased from 11% to 12% at the 2017 Budget.

The benefit of having a portfolio of options to incentivise R&D is important. The recent Treasury announcement to increase corporation tax to 25% will significantly diminish the benefit from the small increased offer of a 1% increase in RDEC and with the UK already lagging behind its competitors, R&D may be even less attractive in two to three years' time. The headline rate of R&D and capital expenditure rates will need to go a long way to make the UK offer competitive and incentivise more businesses to do their R&D activity in the UK.

***Given the role that private sector investment will play in helping the UK to meet the 2.4% target, it is important that incentives are targeted at securing the maximum value and investment from businesses.***

The NCUB Research to Recovery report further made recommendations to establish Innovation Collaboration Zones that would leverage a portfolio of R&D and innovation drivers to meet the differing needs of large and small businesses. This would range from tax incentives and deregulation of land use, through to co-location of expertise and research facilities, to deliver the commercial missions from research through to development and innovation. The R&D tax reliefs offered within these zones could be as high as 25% to help businesses innovate, and galvanise industry and academia around specific, defined commercial challenges. Targeted and generous R&D tax reliefs offered within controlled zones, in the same way that Freeports offer reliefs on imports and export costs can go a long way to incentivising companies to invest more. More detail on this is included in NCUB's response in question 11.

***As noted in question two above, introducing a more predictable RDEC-type scheme would allow SMEs to benefit from longer term planning and stability.***

The current SME scheme affects business' taxable profit or loss before any loss-reliefs have been taken into account. This means that even if a small firm makes a profit in the tax qualifying period, it may be offset with losses brought forward from the last period, making their net taxable profit and tax liability nil. Their R&D tax credit claim would reduce their profit for that period, even before deducting any losses and would therefore, make it harder for SMEs to plan for future years. Profit and losses inevitably fluctuate year on year, even if R&D spend remains consistent, and this makes it harder for SMEs to factor in the R&D tax benefit into future investment decisions. The ability to plan longer term can incentivise companies to invest more in R&D.

***Businesses need more targeted and generous incentives and support to help them recover from the financial declines brought on by the pandemic.***

There is growing evidence that the Covid-19 pandemic is affecting business' R&D and innovation activities. This makes it more difficult for the UK to realise the benefits of its aspirations to become a more R&D intensive, innovation-led economy. NCUB held a series of interviews and two with the Policy Evidence Unit for University Commercialisation and Innovation (UCI) at the University of Cambridge in summer 2020. The [surveys and interviews](#) showed that the crisis has had an immediate impact on business R&D and innovation activity, with more than 80% of business respondents reporting either delays or outright stoppages to their innovation activity. This evidence underlines the important role played by Government in stimulating business R&D and innovation in a challenging operating environment.

***As noted in question two above, the complexities and bureaucracy in filing and claiming for R&D tax reliefs are a barrier for many businesses who may otherwise be eligible for or even incentivised to do more R&D.***

NCUB is a membership organisation with both universities and businesses forming its membership and our members tell us that the perception of complexity is widely shared. For many businesses it presents a barrier to securing maximum support from the tax system. A recent [KPMG study](#) found that businesses are significantly less convinced than in the past that tax policy is supporting their growth, and have become more concerned about complexity in the system (62% up from 38% last year). The study found that a majority of businesses say that tax simplification should be the top priority of Government tax policy. This is echoed by the findings from the NCUB/UCI [study](#) on the impact of Covid-19 on business R&D and innovation activities, in which 61% of business respondents said that even

prior to the pandemic, the legal, tax and regulatory factors in the R&D system were challenging. Evidence shows that businesses with access to greater resources enable them to cut through the complexity, perhaps through engaging specialist help to advise. This suggests that new ways are needed to boost engagement with businesses which do not fit this profile.

***More businesses need to be made aware of the existence and benefits of R&D tax credits, particularly SMEs and startup firms.***

A recent [study](#) from the Federation of Small Businesses showed that 40 per cent of 'incorporated new-to-market product innovators' are not aware of R&D tax relief relevant to their business. Only 10 per cent of innovating smaller firms have accessed support from the Government.

**Question 4: To what extent do the rates of relief available to you impact your investment decisions and/or your choice of location? Is the balance of relief between the two schemes appropriate? Is there any evidence of significant deadweight where investment decisions would proceed without relief?**

***It must be acknowledged that businesses do not make investment decisions based on one factor alone.***

R&D tax credits interact within a whole ecosystem of R&D related factors, of which all need to be present and working efficiently in order for the framework to work better together. NCUB's [Research to Recovery report](#) made several recommendations addressing how the R&D ecosystem as a whole could be strengthened, enabled and aligned in order to attract more business investment. Joined up initiatives that draw on R&D tax relief, the strength of our universities' research base and other initiatives aimed at developing the UK into a science superpower will all play a role in attracting more business investment.

***As mentioned above in our response to question three, in order to level up across the UK, and attract more R&D to particular places, Innovation Collaboration Zones can help galvanise industry and academia around specific, defined commercial challenges.***

Influenced by the Research Campuses in Germany and Silicon Valley in the US as well as harnessing the opportunities with the advent of Freeports in the UK, Innovation Collaboration Zones would seek to create critical mass across research, development and innovation across the UK. Each zone would be built around the specific commercial missions established within the upcoming Innovation Strategy and would join up existing initiatives such as Catapults and large-scale collaborative activities such as the Royce Institute and sites such as the Babraham Research Campus. The purpose of the Innovation Collaboration Zones would be to join up as many possible levers to maximise R&D investment amongst start-ups and SMEs as well as large multi-national companies, and to make it simple and effective for a business to invest in R&D and to capitalise on the different opportunities available. Importantly, the levers deployed could be tailored to the specific focus of the Zone.

There may be an opportunity to build some of the Innovation Collaboration Zones within, or in proximity of, a Freeport, areas where the UK is seeking to attract more business investment. A Freeport would allow for both tax incentives and streamlined regulation on the domestic side, as well as import duty waving on the international side. This could also help to attract multinational companies to the Zones.

**Question 5: Would a departure from the ordinary Corporation Tax self-assessment system be justified? Should more information and assurance be required from companies at the point of claiming? Should a company providing more information upfront be treated differently?**

n/a

Question 6: When did you first claim, and what prompted you to do so? Do you use an agent? If so, why? What is your experience of how agents' fees are structured? How could the expertise and specialist knowledge of agents assisting with R&D claims be improved?

***Reduce the complexity of the system to reduce reliance on agents***

Due to the complexity of the current system, many businesses are forced to rely on agents and technical advisors to access R&D tax reliefs. Our members tell us that small businesses often end up paying 20-30% of their credits to the advisers they have to hire to submit their claim on their behalf. The Government should simplify the rules and provide clearer HMRC guidance to reduce this reliance and thereby increase the accessibility and value of R&D tax reliefs.

***Promote the use of tax relief through wider actors in the innovation system***

Beyond the role of agents in allowing businesses to access tax relief, it is also important that wider actors in the innovation ecosystem know about R&D tax relief, how it works and how it can benefit a company. To maximise the value of R&D tax relief, it is important for senior decision makers to be aware of the benefits investments in R&D can make and of the role R&D tax relief could play in enabling those investments. The efficacy of the regime can be counteracted by human behaviour if senior managers at companies are not using their return effectively. Maximising the benefits of RDEC for example, means working with the finance team to ensure returns are ploughed back into reinvestment. Case studies to encourage more of those behaviours can help to push Boards into creating reinvestment funds, especially at a time when Boards are facing short term liquidity declines and R&D is in danger of being viewed as discretionary, rather than essential to the company's growth.

Our members make clear that multiple factors impact on decisions on whether or not to invest in R&D. Tax relief is likely to have the greatest impact on incentivising R&D investment when other factors, such as access to knowledge, advice, skills and research infrastructure, are present too. Mentioned above in our response to questions 3 and 4, we therefore propose the establishment of Innovation Collaboration Zones that aim to establish a critical mass of talent, ideas, like minded businesses and competitors, as well as favourable framework conditions to encourage business investment in R&D.

***Encourage working in partnership with universities and other actors in the research system***

Promoting and improving the accessibility of R&D Tax reliefs is critically important, particularly for SMEs. Agents can play an important role in providing technical advice, but other actors in the research system have a role to play too. Many universities play an important role in providing business support to spinouts, companies based in science parks, and also more generally through the activities of their business schools. More generally, a university can provide an impartial assessment through a technical report on the nature of the research being considered, advising what can legitimately be counted as research and development to help with the validity of a claim.

It would be valuable for the Government and Department to proactively explore the role of universities in promoting R&D tax reliefs and enhancing their accessibility to those beyond the university base. Additionally, it may be useful to review the information and materials that universities, Innovate UK and other actors in the research system, can access to help promote R&D in SMEs through R&D Tax reliefs, and to provide better guidance for this process.

Question 7: How can the responsibilities of HMRC, agents and the company be better reflected in the claims process?

***Understanding how the claims process and the R&D tax relief system works should not be limited to the role of accountants***

As above, in our response to question 6, beyond the role of agents in helping businesses to access tax relief, it is also important that wider actors in the innovation ecosystem know about R&D tax relief, how it works and how it can benefit a company. If this remains solely the role of agents/accountants then it remains exclusively a finance directive. In order to maximise the value of R&D tax relief, it is important for senior decision makers to be aware of the benefits investments in R&D can bring and of the role R&D tax relief could play in enabling those investments.

***There is a need for more universities to move engagement from an ad-hoc basis to a more systematic basis, developing a strategy or programme of engagement which can then be more easily marketed to small businesses.***

To support this ambition, more could be done to promote The Small Business Charter (SBC) award which gives recognition to business schools that play an effective role in supporting small businesses, local economies and student entrepreneurship. In order to achieve the Small Business Charter award, business schools undergo a rigorous assessment to determine the depth and effectiveness of their business engagement and business support, offering bite size learning to SMEs who can engage at their own pace. The effectiveness of the Small Business Charter Growth Voucher is currently being evaluated. It is important to learn lessons about what works and what does not work based on this evaluation.

**Question 8: What other changes might help claims to be dealt with more smoothly, while ensuring better compliance? Is there a way HMRC and advisers can work more effectively to improve the quality of external advice available to companies? If you claim R&D tax reliefs in other countries, how does the claim process differ and what are your views on this?**

***Simplify the system to enhance its accessibility***

As stated in our response to question 6, there is a need for the system to be simplified and for greater HMRC guidance to reduce reliance on agents and improve the accessibility and value of R&D Tax Credits. Equally, HMRC should consider how guidance for other actors in the innovation system that support businesses, including universities, may be improved.

We believe that there are opportunities for the Government and HMRC to work collaboratively with providers of digital accountancy platforms, like Sage, to identify ways to make tax and accountancy easier, particularly for smaller companies. Other platforms, like NCUB's konfer brokerage tool, may also be used to better promote the use of R&D Tax Credits to encourage research and innovation activities.

***Enhance access to data that could help to inform policy***

Greater digitalisation of R&D tax relief processes may also allow for the more systematic collection of data to improve policy insights and decision making. The ONS, through data captured from CT600 forms, regularly publishes insights on the use of R&D Tax Credits. However, there may be opportunities to further enhance data and analytics in this area to inform policy making and enable an assessment of the use of tax relief.

Whilst confidential information cannot be disclosed and company-level data could not be published, it would be valuable to explore how data could be used to better inform activities to enhance the accessibility and targeting of R&D tax relief. In particular, the lag of published data makes it challenging to use the data to effectively evaluate progress. If the lag was improved, the quality of historical data sets should allow for some trend analysis that could be used to test the efficacy of policy changes.

## Question 9: Is there evidence to suggest areas of activity other than those currently covered by the R&D definition drive positive externalities which should be recognised by the tax system?

If the UK is to reach the 2.4% target, we must develop a competitive offer that incentivises companies to come and do R&D in the UK. There is a clear market benefit to including innovation within the broader definition of R&D qualifying activity for tax reliefs. [Research](#) suggests that companies that innovate through crises by focusing on generating new growth versus simply weathering the storm outperform significantly over time. The following list includes areas where NCUB believes the current R&D definition falls short of recognising activity that is driving positive outcomes:

- 1) *As noted above in our response to question two, the definition of what qualifies for R&D tax reliefs should be broadened out to include more 'innovative' activities that drive productivity and growth***

Although the UK has taken a generous interpretation to defining the types of activity covered by R&D tax credits, evidence gathered by the NCUB R&D Taskforce in November last year suggested that there are significant numbers of companies not claiming. There are many reasons for this, including lack of awareness of what reliefs are out there.

Currently, the UK defines qualifying R&D activity to include projects which:

- looked for an advance in science and technology
- had to overcome uncertainty
- tried to overcome this uncertainty
- could not be easily worked out by a professional in the field

The above definition of qualifying R&D activities may miss many innovative activities that can achieve the same outcome as above, or better. The UK Innovation Survey's definition of innovation is based on an EU-wide definition adopted by Eurostat, which is broader in scope. This definition includes any of the following activities: 1. The introduction of a new or significantly improved product (good or service) or process; 2. Engagement in innovation projects not yet complete, scaled back, or abandoned; 3. New and significantly improved forms of organisation, business structures or practices, and marketing concepts or strategies; 4. Investment activities in areas such as internal research and development, training, acquisition of external knowledge or machinery and equipment linked to innovation activities. Excluding these activities from tax relief seems a missed opportunity as the term 'innovation' includes many activities that could drive a company's growth and productivity and help the UK reach the 2.4% target.

- 2) *SME new-to-firm innovations are critical to growth and productivity and must be recognised and rewarded***

The current R&D scheme definition makes a core distinction between new to firm innovation and new to market innovation and does not incentivise the former. New to firm innovations include brand new practices, products or methods never before introduced or implemented and can be critical to a small firm's growth. Evidence suggests that if a small business introduces any innovation, it is most often a 'new to firm' innovation and can include activities like investments in design, branding, software development and organisational improvement, better management practices and processes that raise productivity. If the overall goal is to reward growing companies that are contributing to the nation's GDP, there should be a broader definition of what is included. [Evidence](#) from the FSB demonstrates that it is harder to value the worth and impact of these forms of innovations, but they are particularly important in the services sectors where investments in physical capital are less relevant. According to research by IPPR, in some sectors, only 25 per cent of innovation success is derived from technological innovations, while 75 per cent is explained by organisational innovations. The UK does a lot more innovation than is currently counted or included in the broad definitions.

### **3) *Extend R&D tax relief eligibility to research in universities***

Fundamental research performed in UK universities and research labs underpins the R&D and innovation system. It is a key driver for businesses coming to the UK and our university research is recognised the world over for the research quality and impact that they bring. In order to provide a sustainable foundation to a more research-intensive, innovative economy, the government should extend eligibility to universities conducting research in strategic priority areas (see question 10) for RDEC relief. The pandemic last year highlighted a growing reliance from universities on other sources of income to support research activity. The consequences of this dependence have threatened the research base during the Covid crisis at a time when research is most needed. Building a system that allows more institutions to engage in research and innovation activity increases opportunities for growth, builds on the UK FDI offer to companies wanting to come to the UK to invest and can also generate high returns for the UK and local areas.

In the years 2014, 2015 and 2016, universities were eligible to submit RDEC claims. These refunds tended to be ploughed back into the research funding “pot”. The British Universities Finance Directors Group (BUFDG) told us that one university, for example, used it to support what it terms as its impact research – projects focusing on health, green issues and social change. Another used a refund of £12m to recruit new research teams to open up new avenues of medical research. As HMRC will be concerned about the abuse of tax relief schemes, the risk of tax avoidance is low as existing governance systems lower the risk significantly through Privy Council decision-making.

### **4) *Late stage R&D is mostly ineligible for R&D tax relief but is critical for driving productivity and growth***

A recent [report](#) from the Royal Academy of Engineering found that elements of late-stage development and demonstration are excluded from the current definition of R&D and therefore ineligible for tax relief. As noted above, innovation activity amounts to more than is captured in the current definition of R&D- it is the process by which ideas are converted into value, in the form of new and improved products, services and approaches and includes not just research but development, demonstration and deployment. While innovation often draws on R&D, with technology a common source of innovation, it can also derive from developments in design, business modes and mechanisms of service delivery. An overly narrow definition of R&D risks failing to realise the full societal and economic benefits from R&D and innovation. NCUB is calling on the government to consult with businesses and experts about a new definition of R&D which includes critical late-stage innovation processes and development.

### **5) *Tax relief should be expanded to include more data-driven R&D activities that are not currently recognised.***

Although software acquisitions and their maintenance costs are eligible for R&D tax credits, [evidence](#) shows that businesses adopting more data-driven R&D practices are finding that their R&D activities are not recognised by incentive structures in the UK. There is strong business demand to make better use of their data and exploit opportunities to access new data for R&D purposes. Investing in data does not always have a cost and so it can be difficult for businesses to cost it when it comes to applying for R&D tax credits. Often, it is the cost of infrastructure to collect, enable and amalgamate the data, in addition to hosting it. These are costs that have never been included in the scope of R&D tax credits and which are incurred even before a company starts their R&D activity.

### **6) *Definitions of eligible activities should include the costs of generating, purchasing, storing, using and analysing data which have been used to drive R&D and innovation in the UK***

Businesses’ ability to derive insight and value from data is no longer limited to a few highly specialised firms. Advances in technologies and tools to collect, store and analyse this data are becoming widely accessible. Businesses are increasingly using data as a key raw material in their R&D. By 2020, an [SAS report](#) predicted that data analytics would contribute over £46 billion a year to the UK economy,

some 2% of GDP. Embracing data-driven R&D could unlock huge potential value. We propose that more of the costs incurred in the generation, processing or analysing of datasets should be eligible for relief under the R&D tax reliefs regime.

**7) *Additional R&D tax relief should be extended to employee training or job creation at innovative companies.***

According to [current tax legislation](#), tax relief is allowable for training expenses only when the training is wholly for business purposes. This essentially refers to seminars and courses that update existing business or professional knowledge, and includes training required to maintain membership of a professional body. However, training courses offering completely new knowledge that are not for the immediate benefit of the business do not qualify for tax relief and the definition of qualifying training is limited. Tax reliefs aimed at training for job creation in high growth areas of a business, R&D or in a direction the company is considering taking (i.e. renewable energy for an oil company), could be additional and more generous in order to encourage more firms to reskill and upskill their current workforce.

**Question 10: Do you think R&D tax reliefs could better incentivise R&D with specific social value, for example developing green technology?  
Could R&D tax reliefs be used to disincentivise R&D in certain fields?**

Achieving the Government's target for the equivalent of 2.4% of GDP to be spent on R&D in the UK will require businesses to invest an estimated £17.4 billion more on R&D in 2027 than they did in 2017. To consider how this could be achieved, NCUB led a Taskforce of business and university leaders in 2020. The Taskforce concluded that the Government has an important role to play in creating a framework for prioritisation, as well as communicating and supporting priority areas for academia and industry. Achieving the 2.4% target is important to achieve economic growth and adapt to the changes driven by the Fourth Industrial Revolution, but equally it is critical to tackling social issues and helping to achieve Net Zero.

***R&D Tax Reliefs could play a part in better incentivising certain R&D activities***

As the Government develops the UK's Innovation Strategy, we believe an important function of this Strategy should be to create a framework to focus the UK's economy and define priorities for the research and innovation agenda. This means creating a system that addresses challenges in all the different areas and encourages innovation wherever it is found. This is important so it can deliver greater opportunities, not just for UK research, but also for UK manufacturing, design and for sectors that have traditionally engaged less in R&D and innovation. If the UK spreads itself too thinly across a range of areas with innovation potential based on its existing breadth of research strengths alone, it risks developing ideas but not converting them into something of commercial and societal value to the UK.

With this in mind, NCUB supports using R&D tax reliefs to incentivise research with social value, but equally this could also be applied in areas where the UK sees particular economic value and opportunity (which will indirectly bring social value, generate jobs and drive local growth). In a competitive and changing global market, the UK needs to identify unique areas of opportunity around which it can focus support and resource to become world-leading. These areas must be able to bridge cutting edge research through to commercially viable products and services, and could play to the strengths of particular parts of the UK.

NCUB therefore supports using R&D Tax Reliefs to provide additional incentives for certain R&D activities. Businesses, universities and others in the research system should play a part in determining which areas of research benefit, through frameworks set out in the Innovation Strategy. Particularly, we proposed that to have the greatest impact on livelihoods and wellbeing, the definition of "social value" should be more broadly conceived to include expanding incentives in areas where the UK is seeking to gain a particular global advantage for economic or social gain. There was strong agreement amongst

those businesses engaged through the Taskforce that to encourage more business research, development and innovation, the UK needs to focus its efforts on attracting and incentivising investment in specific areas of commercial opportunity where the UK has potential to become world leading.

***A globally competitive “baseline” for R&D tax reliefs should be maintained across the board***

Although NCUB supports using tax relief to further incentives research into specific areas of strategic importance to the UK, this should not be at the cost of reducing the overall baseline rate of R&D tax reliefs below their current levels. The benefits and impact of R&D are sometimes unpredictable and one of the greatest strengths of the UK's research system is its breadth. If more generous R&D tax incentives are introduced for certain areas of strategy importance, the current baseline should be maintained across all other activities. NCUB does not believe that R&D in particular areas should be disincentivised through the tax system.

***Differentiation should not significantly increase the complexity of the system***

If more generous R&D tax reliefs were to be awarded to R&D activities in particular research areas, this should not significantly increase the complexity of claiming R&D tax reliefs such that the benefits are offset by higher agent fees. This was the case in China after they introduced eight defined areas of technology innovation for targeting increased R&D. Many have argued that the added layers of complexities have made the system difficult to access and even administer. If a differentiated system was to be introduced, universities may have an important role to play in helping to identify the areas of priority and working with local businesses interested in those R&D areas.

***Priorities should not change too frequently***

There is strong evidence to suggest that long-term, steady public investment in R&D and R&D incentives is more effective at encouraging private sector R&D activity than frequently changing systems. To maximise the efficacy of the R&D tax relief system, it is therefore proposed that future incentives are aligned to priorities that do not change too frequently.

***University research in areas of strategic importance should be eligible for tax credits***

Noted in our response to question nine, if areas are identified where incentives for R&D are strengthened, the Government should consider making university research in those particular areas eligible for R&D tax relief. Fundamental research underpins the R&D activities of the private sector and universities play an important and multifaceted role in the innovation system. Enhancing incentives for research in certain areas in the private sector, should be mirrored with a similar drive to incentivise university and public research in those same areas to maximise their benefit.

***Introduce an accreditation for eligible bodies/ companies to reduce abuse of the system and help combat complexity***

A scheme that enables pre-vetting of companies can go a long way to reduce pressure on companies seeking to access R&D reliefs where they would normally be ineligible. To combat this risk, HMRC should seek to introduce an accreditation similar to the Climate Change Agreement (CCA) whereby companies could commit to an accreditation or plan similar to that which was introduced within the Climate Change agreement: an energy reduction plan. The CCA was administered by industry themselves and they set targets for companies at different points in their journey. This scheme served not only as a pre-vetted group of companies eligible for the credit but it also helped to give long term clarity to companies who were unsure if they qualified. A targeted approach that is applied to companies doing R&D within scope of the government's priorities will need to factor in cross-sectoral R&D and offer clear definitions and guidance about the types of activity that would qualify. Fintech innovation, for example, could include regtech, data, AI and/or cybersecurity.

## Question 11: What is your experience of conducting R&D in different regions across the UK? How do R&D tax reliefs benefit these activities, and how could the offer be improved to better support these activities?

Take up of R&D tax credits varies across the UK, with clear differences in both the number of claims and the amount claimed in different regions and devolved nations. This data is not, however, well understood. For example, it is not clear to what extent these discrepancies are driven by the locations of headquarters or the location of R&D activity. Equally, there is limited information available on variations within, as opposed to between, different regions and/or devolved nations.

### ***The Government should consider enhancing R&D tax incentives in particular places***

The Government should consider whether R&D tax relief could be enhanced in specific places as part of a portfolio of measures designed to incentivise more R&D. This may be to either (1) support levelling up and encourage R&D and innovation activities in parts of the UK benefiting less from those activities at the moment, or (2) encourage the formation of clusters of R&D and innovation activities within regions or devolved nations to strengthen the wider spill-over benefits of research and build or enhance capabilities. Local actors, such as local authorities and anchor institutions, should play a part in advising on the role R&D tax reliefs could play in building the long-term capability and capacity of a local areas in R&D and innovation.

NCUB's R&D Taskforce proposed the establishment of Innovation Collaboration Zones across the UK. The purpose of the Innovation Collaboration Zones would be to leverage all R&D and innovation drivers, from tax incentives and deregulation of land use, through to co-location of expertise and research facilities, to deliver the commercial missions from research through to development and innovation. Innovation Collaboration Zones and/or the UK's new Freeports, may benefit from enhanced R&D incentives to build or attract R&D intensive businesses.

### ***Introduce clarity for eligible companies to qualify for levelling-up incentives***

It is essential that the Government is clear about the criteria for companies wishing to qualify for credits offered in certain regions. Currently, statistics are defined based on where a company headquarters are based, rather than where the R&D is conducted and this can lead to data being misinterpreted based on an inaccurate number of eligible companies able to access the credit.

### ***Extend eligible costs for R&D tax relief to support the building of R&D capabilities***

Realising the Government's aspirations to become a science superpower and to have a more innovative economy will require the UK to both attract a greater share of R&D activity and encourage new firms to engage in R&D. There is some evidence to suggest that the scope of UK R&D tax credits may mean that they are more beneficial in places that already have strong R&D and innovation systems, and less so in areas seeking to build their R&D capabilities. To realise the aspirations of the Government's R&D Roadmap, the Government should extend the eligible costs that could be included in a claim to include costs like retraining and upskilling staff, or, as in France, extend the benefits to hire PhDs- thereby covering the more expensive cost of hiring highly skilled employees. This move would help to pivot the UK tax credit system to help build capability, as well as expand the value of tax reliefs across the UK.

## Question 12: Are there any other areas of qualifying expenditure that should be included within the reliefs? How would this influence your investment decisions?

NCUB is currently analysing the responses from a survey of nearly 4000 UK businesses about their motivations and experiences working with universities and conducting R&D. The results from this survey will provide valuable information about businesses' motivations to work in the UK and invest in research, developing, and commercialising their R&D and the UK regulatory and tax environment. A

final report will be available in late summer which we would be happy to share our findings with HMRC or Treasury.

NCUB recommends that the following qualifying expenditures, not currently included in the tax reliefs definition, will help to enhance and further increase R&D expenditure.

***NCUB is calling for an extension of R&D tax reliefs eligibility to research commissioned by a company to a university***

Noted above in our response to questions 9 and 10, extending R&D tax reliefs to universities could incentivise more multinational companies to come to the UK and invest. Many [studies](#) have shown that university-business collaborations deliver a huge variety of benefits to both universities and businesses alike and contribute to a healthy economy. Our world-class university research is a key driver for companies looking to invest and building on this strength could improve the UK's competitive offer to attract more inward R&D investment. A study undertaken by the Universities Commercialisation and Innovation (UCI) Policy Evidence Unit at the University of Cambridge with NCUB showed that in the year following the pandemic, more businesses predict that their R&D collaborations with universities may decline as they seek to move from the immediate effects of the health crisis into recovery mode. Extending the criteria to businesses working with universities could incentivise and benefit both businesses and universities to do more R&D as they seek to move out of the immediate effects of the health crisis and into recovery.

To illustrate the importance of incentivising research collaborations, there are a few international examples the UK can learn from where university R&D has been prioritised and incentivised through tax credits.

- 1) In response to Covid-19, Japan complemented its R&D tax credit regime with a new [special tax credit](#) for collaborative R&D. A 30% credit is granted for joint R&D with a university or public research institution where the R&D is contracted to such entities (20% where the R&D is with other non-public entities, and 25% where the R&D is with certain other venture companies) and includes both SMEs and large companies. The credit is limited to 10% of the company's national corporate tax liability before the credit is applied, and this limitation is in addition to the other limitations on research credits. Research credits are not limited to specific industries, although the activity must be technological and scientific in nature. Qualifying expenditure includes in-house labour costs, supplies, overhead, depreciation on fixed assets, and contract costs.
- 2) Similarly in the US, a [Targeted Research Credits scheme](#) is applied for specific types of research, including the following: (i) a 20% basic research credit (i.e. for funding research undertaken by universities and research organisations that have no commercial objective); (ii) a 20% credit for payments to energy research consortia; and (iii) a 25% research credit for clinical testing relating to orphan drugs (providing a credit equal to 25% of the amount spent on clinical research).

***NCUB is calling on the Government to consider equivalent incentives to R&D tax relief to encourage greater corporate venturing activity.***

Corporate venture capital (CVCs) provide a way for established companies to extend their ecosystem in key strategic areas, while getting early access to new technologies and capabilities. This enables them to gather insights and enhance their current business without having to incur substantial costs of building from scratch, doing their own in-house R&D or making a complete acquisition.

In order to accelerate their own digital journeys, corporations can employ corporate venturing, choosing from multiple approaches ranging from investing off-balance sheet, to setting up a dedicated internal fund, to creating a separate fund with multiple limited partners (LPs). When executed well, CVCs can become a powerful complement to other tools such as in-house R&D, partnerships, joint ventures and startup M&A to accelerate digital transformation.

CVCs represent a huge market for companies wishing to invest and are becoming more popular. The value of CVC-backed deals more than tripled to \$57.1b in 2019 from 2014, according to [CB Insights](#). Yet while the number of corporate venture arms has also grown, more than 80% of S&P 500 companies still do not have a dedicated CVC arm. These companies may be missing an opportunity since CVC funds have the potential to create even higher returns on investment than traditional venture capitalists. The current system also risks missing an important player in the R&D ecosystem through start ups being ineligible for tax reliefs if a company holds more than 30% equity. A government-directed R&D tax relief aimed at encouraging more companies to invest more through CVCs could incentivise more start-ups to set up in the UK, knowing there are incentives for larger companies to invest in their growth.

***NCUB is calling on the government to introduce R&D tax credits that offset loss-making firms or individuals investing in R&D.***

Many businesses have suffered huge losses this year and it has highlighted the fragility and importance of supporting businesses to not only survive but thrive in order to aid the nation's recovery. Self-employed individuals who make a loss and have no other income in a year could be allowed to deduct the loss from income from investing in R&D from their next job or business venture. The [Institute for Fiscal Studies](#) says this would align tax rates more closely while reducing disincentives for risky entrepreneurial activity. In the Netherlands, tax offsets are redeemable against payroll taxes and are disconnected from the corporate tax liability of the firm.

**Question 13: What proportion of your R&D expenditure is treated as capital for the purposes of corporation tax? What would be the impact on your R&D activities of increased relief for capital expenditure?**

***Better recognition of capital expenditure within UK R&D tax credits will make the UK tax system more internationally competitive.***

Capital investment [accounted for](#) 8.3% (roughly £2.1bn) of all business R&D expenditure in 2019, up from 5.5% in 2010. The use of capital in the R&D process is recognised to an extent in the current tax system and NCUB particularly welcomed the government's introduction of the Super Deduction Scheme which allows companies to claim 130% capital allowances on qualifying plant and machinery investments.

There are limitations however, to how far the Super Deduction Scheme can incentivise more R&D spend and these could be addressed through the following:

- 1) NCUB recommends the government extends the Super Deduction scheme and annual investment allowance beyond 2023 and extending it to R&D qualifying relief***

NCUB welcomed the introduction of the Super Deduction Scheme and the unlimited annual investment allowance but noted that they are both temporary offers, which can disincentivise firms wanting to plan longer term. Our business members tell us that measures that bring longer term certainty are welcome, because even with accelerated time-to-market occurring in many different sectors, it can still take many years from concept to deployment, e.g. manufacturing, aerospace, energy, pharma etc and consistency can help support companies through this intervening recovery period.

The current Super Deduction Scheme has also been found to have a limited impact on startups, particularly those in carbon renewables and green technology. Further, capital expenditure is a key set of expenditure for many early stage startups, especially in biotech, but also computing.

[Evidence](#) from the US and the UK suggests that unlimited capital investment tax relief schemes can have a significant effect on investment and growth. However, unlike countries such as France, Spain and Japan, the UK has not fully recognised capital expenditure in the past within its R&D tax credits

system. Enhancing R&D tax credits to better recognise capital is a policy that would not only help the 'science superpower' ambition to be achieved, but it would bring with it a number of much-needed economic benefits. Importantly, it will contribute to the Government's Levelling Up agenda as it will boost manufacturing particularly in parts of the UK that have developed cutting-edge clusters of advanced manufacturing firms. Moreover, the benefits would result in higher tax revenues that pay for the policy. Therefore, according to a [WPI Strategy report](#), while tax incentives typically create a revenue loss for the Treasury, this one would be 100% self-financing.

The [WPI Strategy report](#) suggests that the tax benefits attached to R&D capital expenditure are flawed and can create inconsistent treatment between loss-making firms and profit-making firms, ultimately disincentivising R&D capital expenditure (and R&D projects more generally). Profit-making UK firms, until 2023, will get back 130% on R&D capital expenditure through tax system; however, loss-making UK firms get nothing back on R&D capital expenditure through the tax system. This is important in the context of a pandemic related economic downturn, when many more firms are expected to make a loss. Removing this inconsistency would mean including capital as eligible expenditure as part of R&D tax credits. R&D tax credits for capital – plant, machinery and buildings - would be paid at the same rates as those for current spend. Existing capital benefits (Research and Development Allowances) would remain claimable alongside enhanced R&D tax credits.

In the case of pharmaceuticals firm Pfizer, tax credit reliefs offered within Ireland's system (25%) over the UK (13%) combined with more generous capital expenditure incentives were shown to be the determining factor for the firm in deciding where to set up. Pfizer's example demonstrates that the inclusion of capital expenditure in tax credits could send a very strong signal to global Boards about the intentions of the UK looking ahead, helping the UK to attract new investment areas such as in life sciences.

## Question 14: Do you currently claim RDAs? If not, why not? What do you like and/or dislike about RDAs?

Research and Development Allowances (RDAs) provide a full tax deduction on capital assets that are used for the purpose of R&D and can have a positive impact on incentivising capital investment. However, the effectiveness of RDAs in their current form is limited. As described above, a [CBI report](#) suggested that incentivising R&D investment through a tax deduction can be particularly limiting for loss-making businesses, as this relief cannot be utilised immediately. In the current economic context, this is an important factor to consider. Where tax losses are carried forward, these tax losses may also be restricted following the recent implementation of carried-forward loss restrictions.

But the key flaw is that non-R&D tax allowances and RDAs interact to create inconsistent treatment between loss-making firms and profit-making firms and loss-making UK firms currently receive nothing back on R&D capital expenditure through the tax system, ultimately disincentivising R&D capital expenditure (and R&D projects more generally).

***NCUB recommends that the government introduces a cash credit RDA aimed at startups and SMEs.***

Two years ago, a [KPMG report](#) showed that offering a cash credit for Research & Development Allowances (RDAs) could help many businesses experiencing liquidity issues in their first few years. RDAs offer a 100% immediate deduction for capital spend for R&D use, to provide facilities for R&D use, to an in-house R&D function or can even extend to a specially configured laptop to run an experimental trial. However, many companies, particularly start-ups, in a cash burn phase are generating tax losses and the RDA presently only adds to those tax losses. A cash credit delivered in a similar way to the R&D tax credit for Small and Medium Sized Enterprises may encourage loss-making companies to invest in capital and set up within the UK which could therefore translate into more jobs and economic stimulation.

***As we noted in our response to question 6, the government can encourage working in partnership with universities and other actors in the research system to have a role in promoting and administering RDAs.***

Many universities play an important role in providing business support to spinouts, companies based in science parks, and also more generally through the activities of their business schools. A university can also provide an impartial assessment through a technical report on the nature of the research being considered, advising what can legitimately be counted as research and development to help with the validity of a claim. It would be valuable for the Government and Department to proactively explore the role of universities in promoting R&D tax reliefs and enhancing their accessibility.

**Question 15: How much of the activity in respect of which you claim R&D in the UK is undertaken outside of the company, and how much of that is not undertaken in the UK? What are the benefits and drawbacks of subcontracting, whether overseas or domestically? What are your commercial/other reasons for carrying out work overseas rather than in the UK?**

***Introduce a credit for companies registering IP ownership in the UK***

Many international companies coming to the UK to invest in R&D enjoy the benefits precisely because the UK system is not territory bound. However, collaborative R&D can present an issue for HMRC, particularly about who owns overseas R&D and because of the wider spill-over benefits of R&D, many countries (UK included) will be seeking ways to encourage more companies to set up their R&D operations within their own borders. It is important that new policies to encourage more domestic R&D do not discourage companies from coming to the UK. Introducing an above the line credit for companies that register and exploit their IP within the UK will encourage more companies to set up here and drive other tax revenues from activities that result from their investment. This is already a successful requirement introduced within the Patent Box regime. For this to be effective however, companies need to be reassured that patent infringement protection and global infringement rules will be followed through and that IP protection costs are included within the reliefs offered.

***Retain tax relief on subcontracting outside of the UK***

It is important to understand the reasons why activities may be subcontracted outside the UK and to consider whether there are specific areas the UK could improve to encourage domestic investment. In particular, the UK should incentivise R&D investment that brings wider social and economic benefits. However, it is important to remember that for many businesses, innovation cycles are being broken into finer stages across complex global value chains. The UK cannot be world-leading in every domain and to remain competitive the UK must also remain globally connected. We therefore strongly recommend that subcontracting outside of the UK remains eligible for tax relief.

***Better promote the UK's R&D incentives globally***

To achieve the 2.4% target, the UK will have to attract a greater share of global R&D investment. To attract global R&D investment, the UK not only needs attractive framework conditions but also needs to promote and constantly evaluate the attractiveness of its offer. The UK must start behaving as a competitor in the global market for R&D investment to retain existing business investment and attract higher levels of globally mobile business research.

In response to previous questions, we have highlighted the importance of promotion and making the R&D tax relief system accessible to businesses, particularly for SMEs. Equally, the UK needs to proactively consider ways to promote the benefits and incentives available to businesses seeking to make an R&D investment.

## Question 16: How could the government distinguish between work that needs to take place abroad and which benefits the UK, and that which doesn't?

It is a welcome opportunity that the government is considering the ways in which R&D tax reliefs can be maximised to the full benefit of the UK economy. However, changes need to be introduced carefully.

### ***Incentivise companies to come to the UK and invest in capital, rather than penalising companies that invest abroad***

Noted in our response above in question 15, introducing a geographical distinction between work that is conducted within the UK and that which is done abroad may bring further complexity to a system that is already perceived to be overly burdensome. Restrictions will also disproportionately affect sectors in which overseas research is vital. The main thing to consider here is how we encourage companies to invest in brick and mortar research establishments in the UK. This makes investments much stickier as it is much more difficult to shut down an operation like this rather than stopping a grant. If the Government chooses to introduce a distinction, NCUB recommends this needs to be introduced in close consultation with MNEs and UK-based companies in order to avoid unintended consequences. One such approach to incentivising companies to do more R&D within the UK is detailed above in our response to question 15 with the introduction of a tax credit for companies registering and exploiting their IP within the UK.

## Question 17: How can we identify the supporting activities which are most valuable for R&D, while providing a clear boundary to assist companies in claiming and HMRC in administering?

### ***How businesses outsource some of their services can result in the service falling outside of their claim.***

This can include testing services or clinical trials that are often outsourced to a contract research organisation (CRO) and will therefore fall outside of an R&D claim. These types of services begin to leak into third party costs and companies cannot claim for the costs they are incurring. HMRC must address these discrepancies where there are services that are outsourced.

### ***Definition of 'medical' research within the current QIA definition should be extended to cover other relevant activity***

Our members have told us that the definition of 'medical' research does not currently cover methodologies and efficiencies that may save costs or improve target outcomes. Some universities conduct medical education-based research aimed at amplifying public health messages more effectively, particularly to vulnerable groups and to wider communities. This research leads to positive changes within the NHS, but most does not qualify for RDEC under the current definitions.

A list of further activities that should be included within the current definition of qualifying expenditure is referred to in question 9 above.

## About the NCUB

The National Centre for Universities and Business (NCUB) represents a collective voice of leaders across higher education and business and aims to tackle issues of shared interest. The NCUB is an independent and not-for-profit membership organisation that promotes, develops and supports

university-business collaboration across the UK. The organisation was originally established in 1986, and NCUB was formed in 2013.