

## Finance Bill 2022-23

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

Date: 14 September 2022

## Introduction

1. The National Centre for Universities and Business (NCUB) represents a collective voice of leaders across business and higher education that promotes, develops and supports business-university collaboration across the UK.
2. This input to the Finance Bill 2022-23 focuses specifically on the proposed Research and Development Tax Relief changes included in the Corporation Tax draft legislation. This input is based on policy positions set out in prior NCUB publications and the content of a discussion roundtable between businesses and universities which took place on Thursday 8 September 2022.
3. In summary, NCUB welcomes the proposed extension of qualifying expenditure, understands the purpose of refocusing reliefs towards innovation in the UK though notes the potential need for further guidance as well as ongoing review to ensure that the competitiveness of the UK offer is not diminished. We also acknowledge the intention behind measures to tackle abuse and improve compliance. Finally, we suggest further reform may be beneficial to improve both the effectiveness of R&D tax reliefs. This includes additional relief focused on priority areas and inclusion of capital expenditure.

## Response

### Role of R&D tax reliefs in the research and innovation system

4. Effective support for the research and innovation sector is key to the long-term growth of the UK economy. This includes honouring commitments to increase public funding as well as ensuring that the environment for business investment is optimised to incentivise increased expenditure from businesses already present in the UK and attract additional investment from overseas. R&D tax reliefs are an important mechanism to encourage private investment and are generally valued by business. NCUB has previously argued for the government to both enhance the level of R&D tax relief as well as improve the effectiveness of scheme designs, in part by offering greater tax relief for R&D in priority areas<sup>1</sup>.
5. In the UK, R&D tax reliefs are a significant part of the government policy. In 2019, UK companies claimed tax relief on £47.5bn of R&D expenditure<sup>2</sup>. It is understood that the government wants to ensure that the scheme is effective and represents value for money. It is also understood that there is a divergence in views as to the effectiveness of the current regime. NCUB has previously argued for the further enhancement of both the level of R&D tax relief and the effectiveness of the scheme designs<sup>3</sup>. In the subsequent paragraphs of our response, we comment on both the proposed changes and suggest additional changes that we believe would improve the efficacy of this scheme. This response does not comment on the relative value of R&D tax reliefs in terms of other policy interventions to support R&D investment. Nor does it comment on other changes to the UK tax system that would benefit R&D.

## Proposed changes

### Extending qualifying expenditure

6. NCUB welcomes the extension of qualifying expenditure to include the costs of datasets and of cloud computing. Additionally, we welcome the removal of the exclusion of pure mathematics. During the roundtable discussion that we held, clarity was sought on the extent of the provision to include the costs of datasets and of cloud computing. Specifically, whether expenditure on secure private cloud infrastructures – necessary for R&D within certain sectors (e.g. defence and security) would be eligible for relief. It is assumed that this will be the case<sup>4</sup>. Clarification would be welcome.

---

<sup>1</sup> [https://www.ncub.co.uk/wp-content/uploads/2021/10/5403\\_NCUB\\_CSR\\_Report\\_V3.pdf](https://www.ncub.co.uk/wp-content/uploads/2021/10/5403_NCUB_CSR_Report_V3.pdf)

<sup>2</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1037348/RD\\_Tax\\_Reliefs.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1037348/RD_Tax_Reliefs.pdf)

<sup>3</sup> [https://www.ncub.co.uk/wp-content/uploads/2021/10/5403\\_NCUB\\_CSR\\_Report\\_V3.pdf](https://www.ncub.co.uk/wp-content/uploads/2021/10/5403_NCUB_CSR_Report_V3.pdf)

<sup>4</sup> "The government intends to include all cloud costs incurred directly for R&D in the scope of qualifying expenditure."  
<https://www.gov.uk/government/publications/research-and-development-tax-relief-changes/research-and-development-tax-relief-reform>



## Refocusing the reliefs towards innovation in the UK

7. The intention behind limiting the reliefs to R&D activity is appreciated. It is also understood that there is uncertainty as to the full extent of overseas activity upon which relief has been claimed. Nonetheless, this is a significant change, the impact of which is likely to be felt inconsistently across sectors. Specifically, analysis by advisory firm BDO suggests that the financial services and software sectors are likely to be particularly affected.
8. It is important that the differentiated impact of this change is acknowledged and any resulting impact on R&D investment in affected sectors monitored. It may become necessary to develop sector specific interventions or alternative measures to ensure that the UK remains a competitive place to conduct R&D in all sectors.
9. The public text on Research and Development Tax Relief reform notes that, 'there will be some narrow exemptions where factors such as geography, environment, population or other conditions that are not present in the UK are required for research (for example, deep ocean research) and where there are regulatory or other legal requirements for certain activities to take place in specific territories (for example, clinical trials).'<sup>5</sup> Businesses expressed uncertainty as to the full scope of what this would include in practice. While it would be impractical and limiting to attempt to define all activities that will be eligible under these exemptions, it is likely that ongoing guidance and advice will be necessary to help business identify eligible exemptions.

## Tackling abuse and improving compliance

10. The desire to tackle abuse and improve compliance is appreciated. It is understood that the reporting associated with the change will not be onerous, nor require the provision of information at a level of detail that is not already available to companies. This is welcome. Following the introduction of these changes, additional guidance for businesses may be required. Any further requirements for 'additional information' that may be made in future should be reviewed to ensure that they are not overly onerous and so do not diminish the attractiveness of the scheme.

## Additional reforms to consider

11. The following changes are not within the scope of the *Research and Development Tax Relief reform* included in the *Finance Bill 2022-23*. They are additional reforms suggested to improve the effectiveness of this scheme.
  - a. **Capital expenditure:** Expansion of the cost base to include capital expenditure was suggested during the roundtable discussion as one means to mitigate the impact of the proposed changes in the structure of the reliefs upon their competitiveness. Businesses suggested that this would be particularly significant in incentivising long-term investment within the UK.
  - b. **Net Zero focussed relief:** Successive governments and specific government departments have articulated various priority areas for investment and activity. Most recently, the Office for Science & Technology Strategy (OSTS) identified the following four priority areas for science and technology: 'sustainable environment', 'health and life sciences', 'national security and defence, including space', and 'a digitally and data driven economy.' NCUB has previously argued for additional tax relief within priority areas to incentivise investment<sup>6</sup>. During the recent roundtable, additional relief for investment related to Net Zero was suggested. It would be valuable to explore the role that focussed tax reliefs can play in incentivising additional investment in priority areas.

<sup>5</sup> <https://www.gov.uk/government/publications/research-and-development-tax-relief-changes/research-and-development-tax-relief-reform>

<sup>6</sup> [https://www.ncub.co.uk/wp-content/uploads/2021/10/5403\\_NCUB\\_CSR\\_Report\\_V3.pdf](https://www.ncub.co.uk/wp-content/uploads/2021/10/5403_NCUB_CSR_Report_V3.pdf)

