

# R&D Tax Incentives are changing from April 2023 – make sure you know the rules!



## In brief:

Following the announcement in the Autumn Budget that there would be a review of the current R&D relief schemes, the treasury has issued a consultation document and we now have further details on the proposed changes to the R&D regimes.

## Data and cloud costs

Whilst the initial consultation document indicated that businesses would be able to claim relief for the cost of cloud computing services used directly for R&D, HMRC's proposal appears to be applying this more narrowly than we would have hoped with dataset costs only being eligible where they are used exclusively for R&D. In addition the definition of cloud computing costs appears to rule out the inclusion of cloud server and storage costs which can often be essential to the R&D activity and may prove difficult for businesses to separate from the allowable cloud computing costs and in our view adding unnecessary complexity to the scheme.

HMRC latest annual report suggests there has been a 90% increase in R&D enquiries due to the concerns over the levels of error and fraud seen in claims, so companies should expect their claims to be under increasing levels of scrutiny. This means it is more important than ever for companies to make sure their claims are robust and properly supported by appropriate documentation.

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### Refocussing relief on UK activities

Both the SME and RDEC regimes currently allow companies to claim relief on payments made to third parties in respect of R&D activities where that activity is undertaken overseas. Going forward this will be severely restricted as the proposed changes mean that it will only be possible to include third party costs where the R&D is undertaken in the UK or where the employees' salaries are paid through a UK payroll.

**This will impact many SME and Large businesses alike who rely on overseas workers where they are not able to access the technical skills or resources required in the UK.** Whilst HMRC have indicated they may consider some exceptions it is expected this will be a narrow list of exclusions that will still lead to most overseas R&D costs being excluded. If the policy intention is to refocus reliefs towards innovation in the UK there may be simpler ways to achieve this such as providing a lower rate of relief on overseas costs, or limiting the relief available on overseas costs by reference to the UK based R&D.

### Improving compliance

To tackle concerns over the level of error and fraud being seen in the R&D regime HMRC plan to increase the level of resource with the introduction of a new cross-cutting team focussed on abuse. In addition to this the following changes will be made for all claims from April 2023:

- All future claims to be made digitally
- Documentation will be required setting out the nature of the R&D and breaking down the expenditure
- All R&D claims will need to be endorsed by a named senior officer
- Advance notification to HMRC of intention to submit a claim
- Providing details of the agent advising on the claim

The proposed measures are to be welcomed if they help to cut down on the level of dubious claims being made, but it is critical for companies correctly making claims that these do not turn into unduly onerous requirements. We will continue to monitor the situation and provide advice and guidance to help our SME clients to make successful claims to support their innovation.


**If you would like additional help in understanding what the proposed changes mean for your business, please don't hesitate to get in touch with our Innovations Tax team:**

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## Register for our webinar this Summer

In light of the forthcoming changes to R&D tax incentives, we will be hosting a live webinar and Q&A to give you all the information you need as soon as the changes are announced.

[REGISTER YOUR INTEREST](#)