

# **Response to HM Treasury Consultation on R&D Tax Relief**

## **Written Evidence Submission by The Chartered Institute of Management Accountants (CIMA)**

**28/05/2021**

### **About CIMA**

The Chartered Institute of Management Accountants (CIMA), founded in 1919, is the world's leading and largest professional body of management accountants. As part of the Association of International Certified Professional Accountants (the Association) its members and students operate in 192 countries, working at the heart of business. CIMA members and students work in industry, commerce, the public sector and not-for-profit organisations. CIMA works closely with employers and sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure it remains the employers' choice when recruiting financially-trained business leaders. Chartered Global Management Accountant (CGMA) is the most widely held management accounting designation in the world. It distinguishes more than 150,000 accounting and finance professionals who have advanced proficiency in finance, operations, strategy, and management.

CIMA is a founder member of The Association of International Certified Professional Accountants (the Association). The Association of International Certified Professional Accountants is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs (AICPA) and The Chartered Institute of Management Accountants (CIMA) to power trust, opportunity and prosperity for people, businesses and economies worldwide. It represents 696,000 members, students and engaged professionals across 192 countries and territories in public and management accounting, and advocates for the public interest and business sustainability on current and emerging issues. With broad reach, rigour and resources, the Association advances the reputation, employability and quality of CPAs, CGMAs and accounting and finance professionals globally.

### **Contact**

For further information about CIMA and our submission please contact Ross Archer, Lead Manager – Public Policy on [ross.archer@aicpa-cima.com](mailto:ross.archer@aicpa-cima.com)

## **Introduction**

CIMA is not directly claiming R&D tax credits. CIMA is a chartered membership body for accountants that themselves advise their clients on these matters. Our answers are provided from evidence drawn from our membership who help firms with their tax matters including R&D tax credit claims. Our membership is global but includes around 80,000 UK members working with companies of all sizes and in all sectors allowing us to provide a broader perspective on how companies assess the value of R&D tax credits overall.

Our broad view is that such tax credits are useful as part of a broader mix of policies to make the UK economy more competitive. Ensuring that the UK is in line with the most competitive countries in each policy area is key to ensuring that when companies make decisions about investment the UK is more likely to emerge as the favoured destination. Companies will consider a range of different factors and will each attach different value to individual points so maximising the number on which the UK outperforms makes sense.

Below we provide answers to those questions where we can provide input.

## **Answers to Specific Consultation Questions**

**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?**

Simplification in the schemes would be welcomed and consolidating the two schemes should provide some simplification.

In any consolidation and simplification of the schemes it is important to maintain the principle of not double dipping (i.e. companies being funded twice for the same £1 of R&D spend).

Any changes should not weaken the incentive to invest into new technologies that enhance company productivity, performance and ultimately profitability compared to the two current schemes.

**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?**

It may be the case that companies do adapt what they are doing to make the projects more like R&D, so there may be an element of additionality in the longer term.

HM Treasury should focus on making the schemes simple and the rules for defining what R&D is simple and very transparent to help companies engage correctly with the scheme.

**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?**

We do not believe that businesses choose their location solely based on R&D rate relief. Businesses choose their location based on a number of reasons including location of customers, workforce, management preferences, supplier location, overall business environment, tax, resources, infrastructure, technology considerations, transport to name just a few. However, maintaining a competitive system of R&D tax relief helps improve the overall case for UK investment.

Some of our members have seen genuinely mobile businesses locate production and some operations to different jurisdictions to benefit from optimum rates of support, tax relief and costs, but these decisions do not just relate to R&D. Some members have also noticed businesses move some operations within the UK to take benefit of different support packages from the devolved governments, but this is a rare instance.

**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?**

We would recommend retaining the current system of utilising Corporation Tax returns. It is far simpler and ensures all tax information can be provided at the same time. In the UK, self-assessment is a well-developed principle and moves away from this principle could create more confusion for businesses and mean more issues develop for both businesses and HMRC.

It may be beneficial for HMRC to mandate additional information where it is currently only voluntary. This way it may mean HMRC get all the information they need, and more auditable trails are created. To avoid possible fraudulent claims, it may be beneficial to HMRC to make this a mandatory requirement.

**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?**

Some of our members are specialist R&D tax claims providers, while a number of others utilise the help of specialist support when claiming for R&D.

It was felt by one of our members that using a specialist R&D agent helped so much that the Board and leadership of the company noticed the difference.

Those who have utilised specialist support have said this support has helped with their RDEC claims and by using them this has helped with additional information requirements. It has also shortened the timeframes for the company that is using them in terms of both submitting and receiving repayments from RDEC.

One suggestion for how expertise and specialist knowledge of R&D agents could be improved was having clear HMRC guides and guidelines and more rapid responses from questions of agents to HMRC.

**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?**

HM Treasury should look at what other countries include in their R&D definition to see whether they have a broader definition and if they do what positive effects this has in increasing R&D spend and ultimately productivity and business profitability.

One area the government should consider broadening the definition is research. Research can take many forms and be across many different subjects. The success of the current system should be evaluated to ensure it continues to be broadened to develop even more research.

Breakthroughs in technology only happen by increasing research, therefore the more that this can be encouraged the better the outcome is likely to be.

**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?**

Widening the scope of what R&D could be spent on could achieve the aims of this question and incentivise R&D spend on social value projects, research and development. Enhanced reliefs for specific types of technology may require precise definitions of what is a green technology which could be unduly restrictive and not include key developments which might have green benefits but not qualify as technology under the rules of the scheme. They will also have implications in terms of the bureaucracy and costs of the scheme – a simpler and flatter structure makes more sense.

It makes sense to incentivise activities in areas where Government wants extra investment, so green technology, reducing carbon footprint and similar activities but a broader relief which is generous might encourage more R&D overall and more green investment without added complication. The government should make sure any changes to incentivise R&D spend on specific social values is of benefit to the company and helps to achieve a better and more profitable and sustainable business environment in the UK both in the short and longer term.

**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?**

Our members have said that their experience in conducting R&D across the different regions of the UK does not change noticeably.

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

One suggestion is that consideration is given to where the final asset or technology is likely to benefit. If the benefit is to the UK then all expenditure could be seen as qualifying.

Another is there could be a higher rate of relief applied to staffing costs where the employee pays UK personal tax versus where the employee is overseas who does not.

**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?**

There needs to be a line drawn to ensure any reliefs that are provided are fair and equitable. Supporting work that does not fully fall into the definition could be apportioned into the cost.

Possibly the rules for qualifying costs of capital assets, as defined by international accounting standards, could be used as a sensible proxy for this style of expenditure.

Simplicity is key to success through this activity, one thing that the government should do is make the definitions of supporting activities unambiguous and clear as possible.

We believe if companies and specialists within R&D have greater understanding of what they can claim for and how the system will be better for all. There will be more claims and spending on R&D activities that support investment in businesses and help the wider economy. And there will be less fraudulent or mistaken claims as the process and what can and cannot be claimed for will be simpler to understand.