

EAMA response to government consultation on R&D tax reliefs

EAMA is an alliance of ten trade associations representing 2,000 firms across the machinery and component supply chain. We welcome the opportunity to address questions raised in the consultation.

Question 1 Do you consider yourself 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 [R&D expenditure credit], what is your experience of using each scheme and how do they compare?

Answer: Companies that research, develop and innovate often fail fully to recognise this work.

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?

Answer: A shift is needed in the way claims are made, such that:

- there is greater understanding within companies seeking the relief;
- understanding is built into the company's business planning process; and
- anticipated credits are shown within e.g. monthly management accounts.

Such a system would serve to highlight the true value of the incentives. At present, companies commonly rely on accountancy firms or specialist R&D tax consultants to assess and claim credits at year-end. This system works reasonably well for advisers, and it may not be in their interest to urge their clients to change; but it is a less satisfactory way of managing a company and it diminishes the relevance of the incentives to the business process.

We recommend that best practice be promoted. EAMA's trade associations would be well placed to support such a campaign.

There is a case to be made for regulating advisers, which we see as a broader issue than R&D credits. Regulation would add cost, however, and it would have to be effective and to avoid giving false confidence. We have no strong views as to whether regulation of tax advisers would be worthwhile but we believe that many of the problems relevant to this consultation would in any case be much reduced by stronger, clearer leadership from HMRC.

Requiring professional indemnity insurance would add cost and would not, we believe, be helpful.

A clear and prominent re-statement of purpose of the tax reliefs would aid their understanding – as it does for all government regulation.

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

Answer: We note the increased emphasis on compliance enforcement announced in Budget 2021, which should help to improve compliance in R&D reliefs, as well as elsewhere. Following on from Question 6, HMRC should take a more assertive stance in:

- stating as clearly as possible what is and what is not an acceptable claim, and making that advice easily accessible;
- issuing clear warnings to companies about potential problems it finds with agents and other advisers; and
- publicising tribunal rulings in its favour. HMRC appears reluctant to assert itself in these ways – for whatever reason. That must change. We have seen, for example, with IR35 that this can lead to prolonged periods of poor standards. A more assertive approach is all the more necessary in the light of indications that HMRC will view as evasion practices that in the past might have been called avoidance.

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?

Answer: UKRI, Innovate and the Catapults (notably, for EAMA, HVMC) already have an important role in R&D in the UK, relevant to the tax reliefs. We would like to see that strengthened by specific direction aimed at increasing their involvement with, and support for, SMEs. While tax advice is clearly not the primary concern of these non-departmental public bodies, there seems to be a clear synergy in terms of messaging and promotion of good practice.

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?

Answer: Enhanced R&D tax reliefs for developing and innovating with green technology would be a positive step if they can be clearly defined, despite the disadvantages associated with adding complexity to the reliefs. Any scheme should be open to continuous review and improvement, to allow for the inclusion of new ideas and technologies.

The same can be said of technologies that are deemed to be of strategic national importance.

Where an inward investor (FDI) is being attracted to the UK, government should consider enhanced incentives for UK-based firms to win supply chain to gain supply contracts.

Enhanced allowances should be considered where there is a clear link to improved export potential. Such contracts can often bring substantial social benefit also, particularly in relation to developing economies.

The government has ended UK Export Finance and other support for exports related to fossil fuels, including

oil and gas (with a one-year stay for SMEs). Reducing or abolishing R&D incentives related to these sectors would therefore seem, on the face of it, to follow on logically. However, such an approach carries dangers, in that some of the R&D activity may be transitional for UK firms looking to a greener future or may also support applications outside the sectors government wishes to disincentivise. Clashes with other policy areas should be avoided – for example, the heavily discounted road fuel duty on natural gas, in place to encourage its use as a transition fuel for heavy vehicles. The timing and detail of the disincentives would be important, along with clarity.

Jack Semple

Alliance secretary

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