

The logo consists of a stylized white graphic on the left, resembling a four-pointed star or a compass rose with curved edges. To its right, the word "BioForward" is written in a bold, white, sans-serif font.

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The 'Roadmap for Growth' Life Sciences Event

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Workshop one: A Guide to the Latest Updates in R&D Tax Credits



Katy Rabindran
Director Innovation & Technology
BDO

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A woman with curly hair, wearing safety glasses, a white lab coat, and blue gloves, is gesturing with her hands while talking to another person whose back is to the camera. They are in a laboratory setting with shelves of equipment and bottles in the background.

A GUIDE TO THE LATEST UPDATES IN R&D TAX CREDITS

OBN Bioforward - September 2023

Katy Rabindran - Director Innovation & Technology, BDO

PRESENTING



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AGENDA

- 01 OVERVIEW OF CURRENT R&D SCHEME
- 02 SUMMARY OF NEW CHANGES
- 03 ADDITIONAL INFORMATION FORM
- 04 HMRC ENVIRONMENT FOR CLAIMS
- 05 PROPOSED MERGED R&D SCHEME
- 06 Q&A



WHAT IS R&D TAX RELIEF



Payable credits (or tax offset) for companies engaged in R&D activities under 2 schemes of relief



HMRC operate a “process now, check later” approach

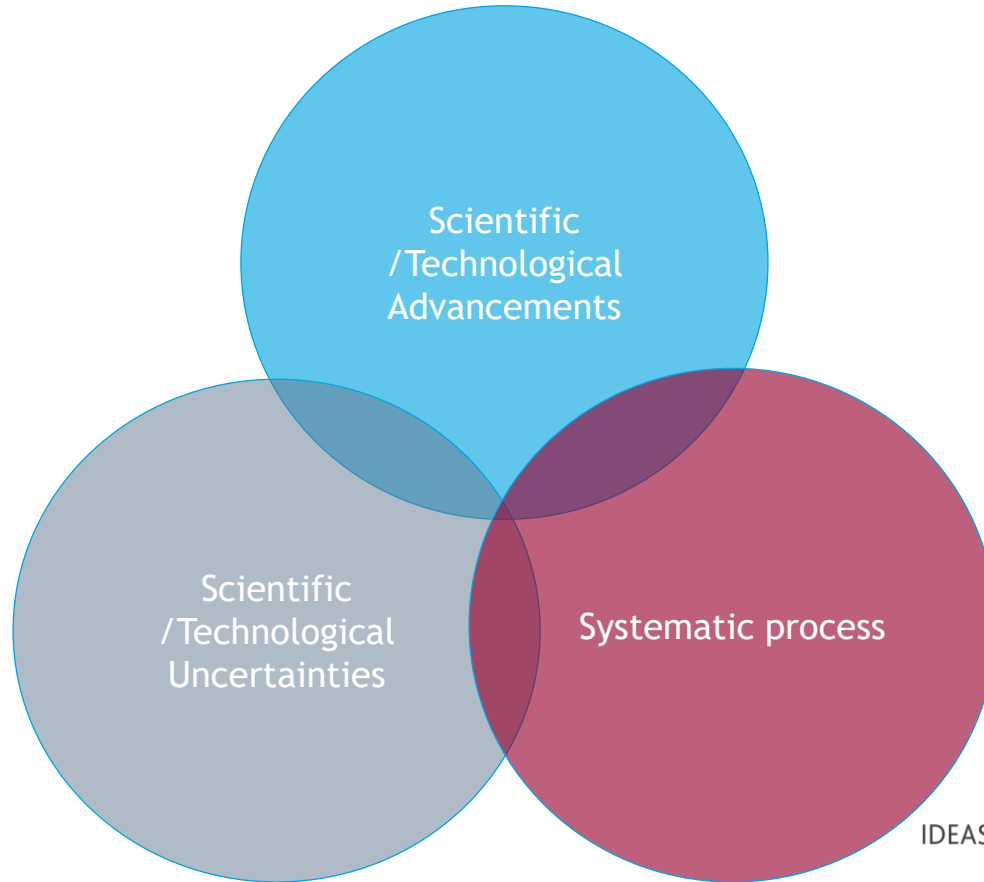


Claims are made in a corporation tax return



On-line information must be submitted in support of all R&D claims

TECHNICAL CRITERIA - THREE PILLARS OF R&D



R&D IS EVERYWHERE

The life sciences sector is known for innovation, but it's not just in drug discovery...

Robotics for laboratories

Contract Research Organisations

Covid-19 test development

AI solutions to support medical practitioners

Stoma bag technology

Development of new vaccines

Treatment for liver disease

Development of new biomarkers

Creation of wearable headsets to test for fatigue strength

Optimise production of vaccines

Clinical trials' development services

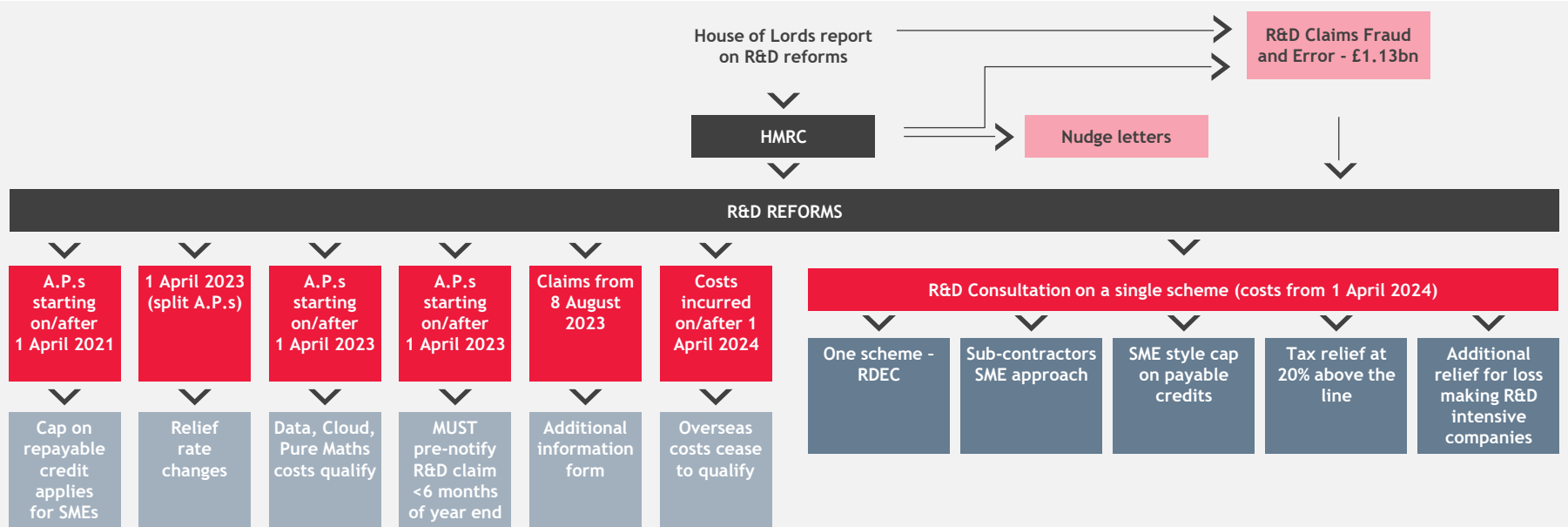
Precision medicine based on genetics

Treatment for addiction

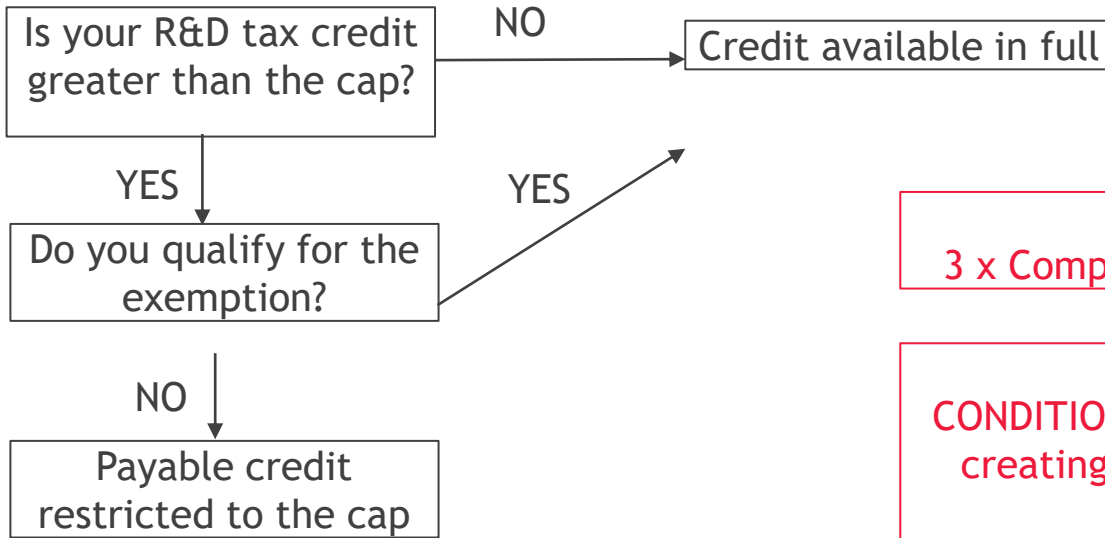
Preventative medicine

Fertility treatments

SUMMARY OF CHANGES TO R&D REGIME



SME PAYE/NIC CAP MEAN FOR AP BEGINNING ON OR AFTER 1 APRIL 2021



CAP:
3 x Company total PAYE/NIC + £20,000p.a.¹

EXEMPTION:
CONDITION 1: The company's employees are creating, preparing to create, or actively managing the relevant IP.
AND
CONDITION 2: Less than 15% of the R&D costs are from connected companies.

¹In group claims, additional PAYE/NIC may count where these group companies have contributed to the R&D. IDEAS | PEOPLE | TRUST

WHAT'S IT WORTH - NOW AND POST 1 APRIL 2023

	SME regime		Large company regime (RDEC)	
	Up to 31 March 2023	From 1 April 2023	Up to 31 March 2023	From 1 April 2023
Profitable company	130% uplift on costs = 24.7% net benefit	86% uplift on costs = 21.5% net benefit	Headline rate 13% = 10.5% post tax	Headline rate 20% = 15% post tax
Loss making company*	Costs plus 130% uplift = 230 x 14.5% repayable credit = 33.4% subsidy	Costs plus 86% uplift = 186 x 10% repayable credit = 18.6% subsidy	10.5% subsidy	15% subsidy
Loss making R&D intensive company**	NA	Costs plus 86% uplift = 186 x 14.5% repayable credit = 26.97% subsidy	NA	NA

- Find a 'just and reasonable' way to apportion costs pre and post 1 April 2023

DATA AND CLOUD COSTS FOR AP BEGINNING ON OR AFTER 1 APRIL 2023



Data licences are now eligible



Cloud computing costs are now eligible

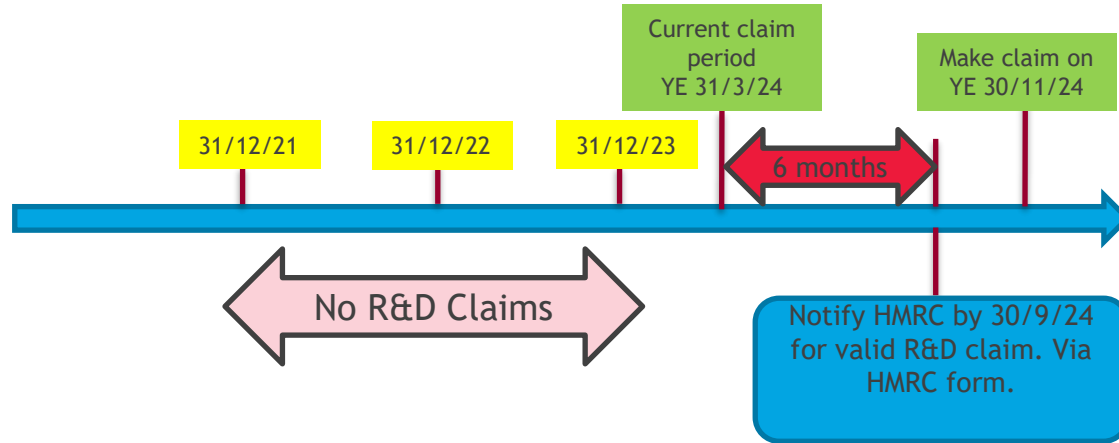


But not where there is the right to sell, publish, share or communicate data

CLAIM NOTIFICATIONS FOR AP BEGINNING ON OR AFTER 1 APRIL 2023

Applicable to companies who have not made R&D claims for 3 years/new claimants.

EXAMPLE:



OVERSEAS COSTS FOR COSTS INCURRED ON OR AFTER 1 APRIL 2024



EPWs and subcontractors are only eligible if based in the UK



UNLESS: that would be “wholly unreasonable” - eg where there is a regulatory reason to do work overseas



Overseas staff continue to be eligible



Note: There may be wider application to UK costs connecting eligibility to PAYE.



ADDITIONAL INFORMATION FORM (AIF)

WHAT YOU NEED TO KNOW

- ▶ Additional to the claim in your tax return
- ▶ Applies for all periods you are claiming for
- ▶ Must be submitted separately online
- ▶ Separate R&D narrative for **each** R&D project (even if 2nd year of claiming on a project)
- ▶ AIF to be endorsed by a named senior officer of the company
- ▶ Full contact details R&D agent who has advised the company on compiling the claim
- ▶ Specified project and cost details required
- ▶ Failure to supply AIF invalidates claim in tax return
- ▶ No discretion for HMRC inspectors.

BETA This is a new service - your [feedback](#) will help us to improve it.

Support a research and development (R&D) tax claim

Application incomplete
You have completed 0 of 3 sections

1 About the business and tax agents

Business details	NOT STARTED
Contact and agent details	CANNOT START YET

2 Details of claim

Accounting period	CANNOT START YET
Qualifying expenditure and projects	CANNOT START YET

3 Check and send to HMRC

Check answers and submit form	CANNOT START YET
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ADDITIONAL INFORMATION FORM (AIF)

Project data required

PROVING YOUR PROJECT QUALIFIES AS R&D

- ▶ What is the main field of science or technology?
- ▶ What scientific or technological knowledge existed at the start of the project did you plan to advance?
- ▶ What advance in scientific or technological knowledge did you aim to achieve?
- ▶ What scientific or technological uncertainties did you face?
- ▶ How did the project seek to overcome these uncertainties?
- ▶ What expenditure does this project have?

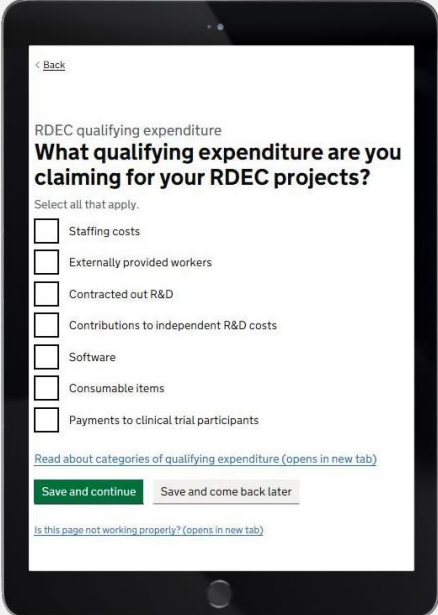


ADDITIONAL INFORMATION FORM (AIF)

Cost data required

Qualifying expenditure per project will be needed with costs split out for each claim.

- ▶ Staffing Costs
- ▶ Externally Provided Workers
- ▶ Consumable items
- ▶ Contracted-out R&D
- ▶ Contributions to independent R&D costs
- ▶ Software Licenses
- ▶ Payments to clinical trial participants
- ▶ The amount of qualifying expenditure that is a result of qualifying indirect activities.



< Back

RDEC qualifying expenditure
What qualifying expenditure are you claiming for your RDEC projects?

Select all that apply.

- Staffing costs
- Externally provided workers
- Contracted out R&D
- Contributions to independent R&D costs
- Software
- Consumable items
- Payments to clinical trial participants

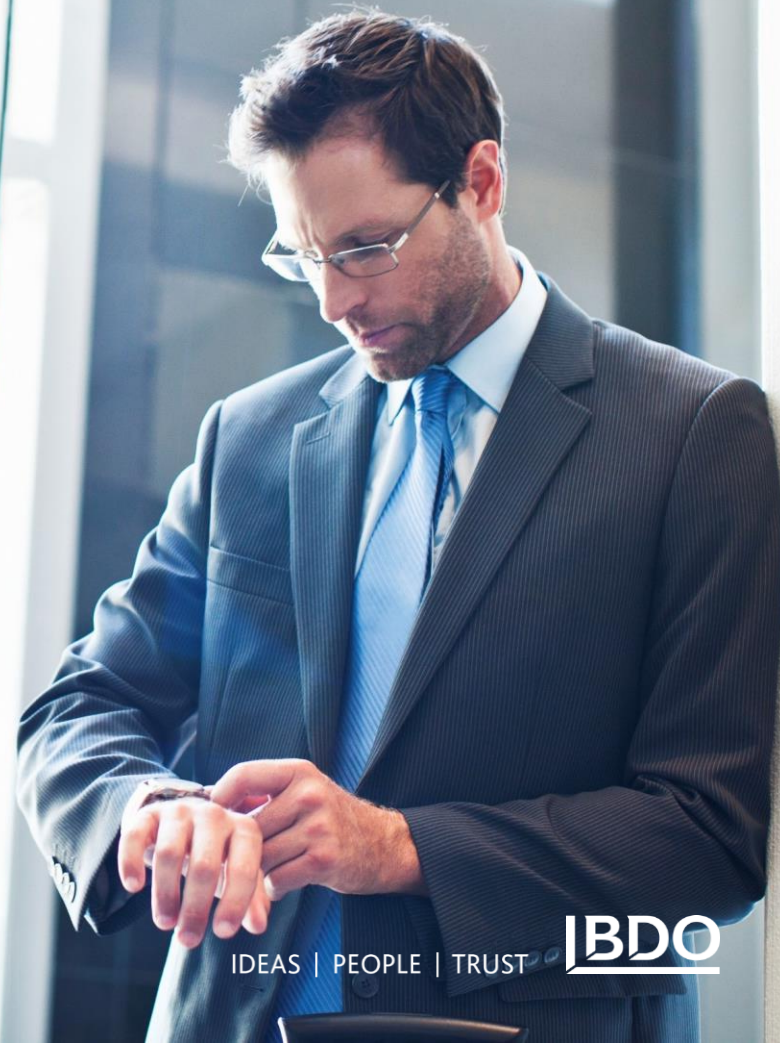
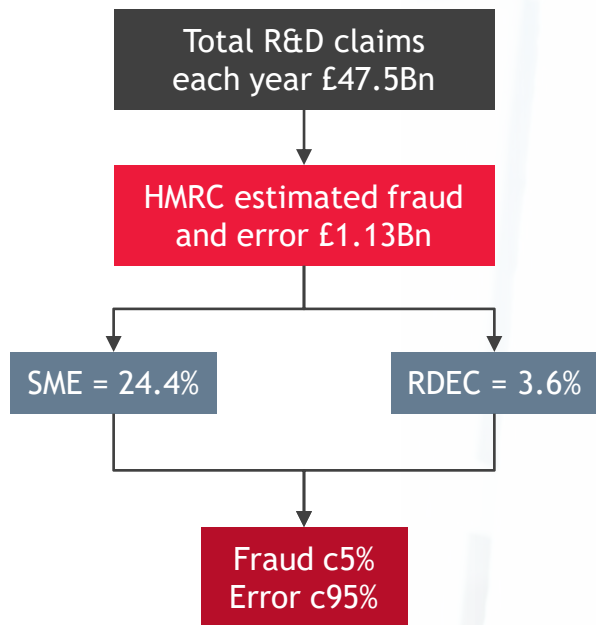
[Read about categories of qualifying expenditure \(opens in new tab\)](#)

[Save and continue](#) [Save and come back later](#)

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ERROR AND FRAUD STATISTICS

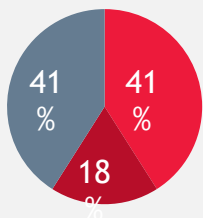
New estimates for 2020/21



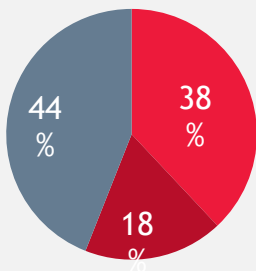
ERROR AND FRAUD STATISTICS

R&D CLAIMS ESTIMATED COMPLIANCE BY SECTOR

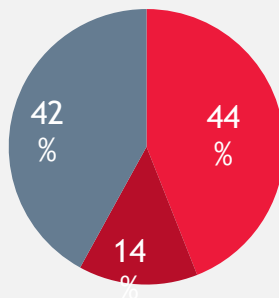
FS/Fintech



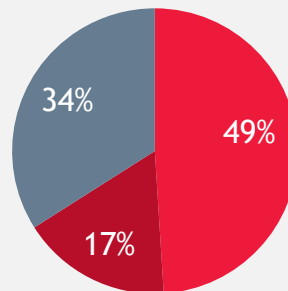
Construction



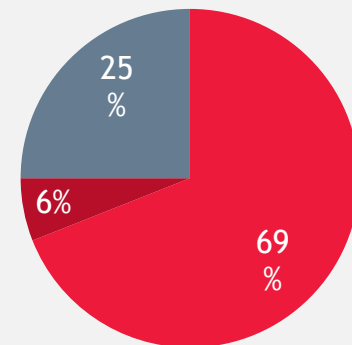
Information and communication



Professional, Scientific and technical activities



Manufacturing

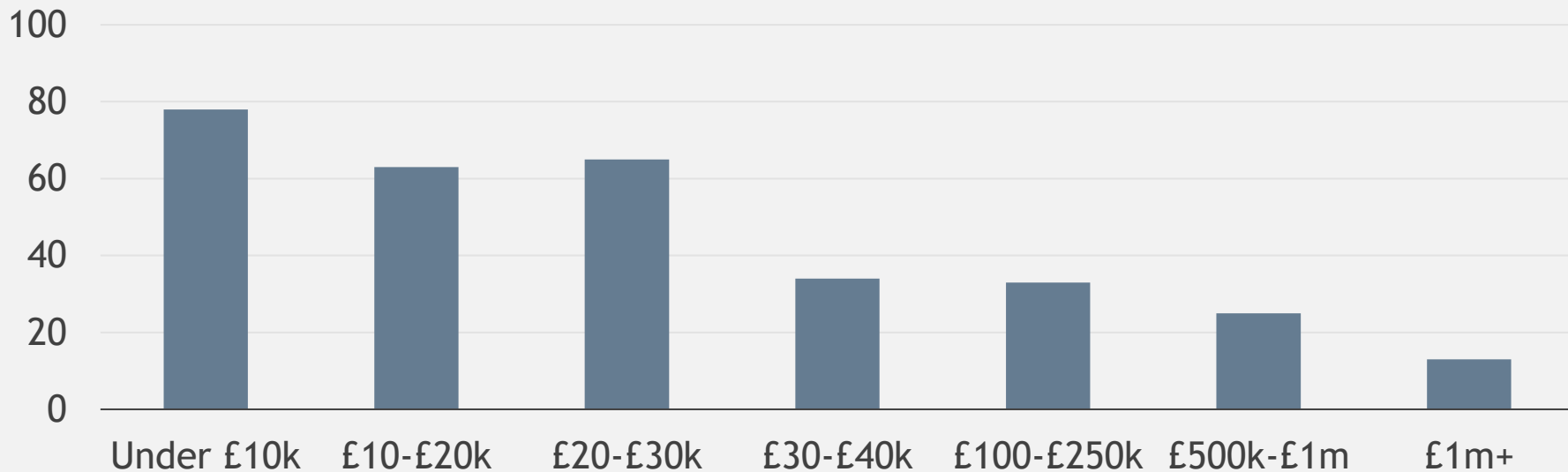


- Compliant
- Wholly non-compliant
- Partially non-compliant

<https://www.gov.uk/government/publications/compliance-approach-to-research-and-development-tax-reliefs/hmrcs-approach-to-research-and-development-tax-reliefs#behaviour>

ERROR AND FRAUD STATISTICS

ESTIMATED PERCENTAGE OF NON-COMPLIANCE, BY VALUE OF CLAIMS



<https://www.gov.uk/government/publications/compliance-approach-to-research-and-development-tax-reliefs/hmrcs-approach-to-research-and-development-tax-reliefs#behaviour>

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ERROR AND FRAUD STATISTICS

HMRC APPROACH TO REDUCING ERROR AND FRAUD

- ▶ Government expectation of rapid progress in reducing loss of revenue
- ▶ Over £1bn SME scheme ‘non-compliant/partially non-compliant’ claims so ‘Helping businesses get in right’ an increasing focus:
 - Education
 - Claim notification
 - Additional information form.
- ▶ Raising agent standards
- ▶ Better targeting of enquiry resources (e.g. low value claims in high risk sectors)
- ▶ 300 new HMRC officers working on R&D tax credits.

CREATING A SIMPLER MERGED SCHEME

WHY?

- ▶ To ensure taxpayers money is spent as effectively as possible (increase 'additionality' of corporate investment)
- ▶ To support innovation
- ▶ To improve the international competitiveness of RDEC
- ▶ Ideal is a simplified set of rules
- ▶ Cost - in 2019, UK companies claimed tax relief on £47.5 billion of R&D expenditure
- ▶ Will it help reduce error and fraud?

WHEN

- ▶ Potential start for costs incurred from 1 April 2024.

MERGED SCHEME

CURRENT PROPOSALS

- ▶ No change to definition of R&D (DSIT guidelines apply)
- ▶ Tax relief restricted to 20% above the line (so SMEs' relief rate cut again)
- ▶ Any grant funding and subsidies will invalidate a claim
- ▶ Special relief for loss making 'R&D intensive' businesses to run alongside new scheme
- ▶ Loss cap rules to be based on current SME cap (more generous)
- ▶ Subcontracted costs - can be claimed by principal as under current SME rules.

WHAT CAN YOU DO TO BEST SUPPORT YOUR CLAIM?

TECHNICAL

- ▶ We see most enquiry activity here
- ▶ So, make sure your technical descriptions are robust and tie to the DSIT guidelines
- ▶ Make sure your competent professionals have the right qualifications and understand the criteria.

FINANCIAL

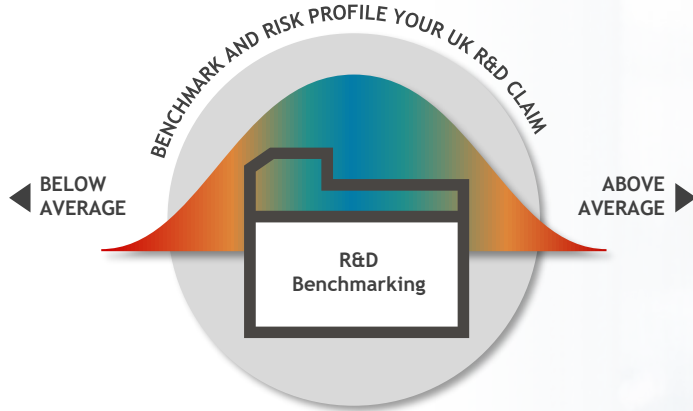
- ▶ Make sure you have good records as a base for your claims
- ▶ Ensure you know the R&D criteria and apply them.

RISK MANAGEMENT

- ▶ Consider where and how disclosures should be made as reports attached to SME claims will be ignored by HMRC
- ▶ Make sure you save a copy of the AIF before submitting!



BENCHMARKING TOOLKIT



BENEFITS

- ▶ Benchmark a company claim against comparable companies in your sector
- ▶ Get an indication of the priority of performing an additional review of the claim.



Q&A

CONTACT DETAILS

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