

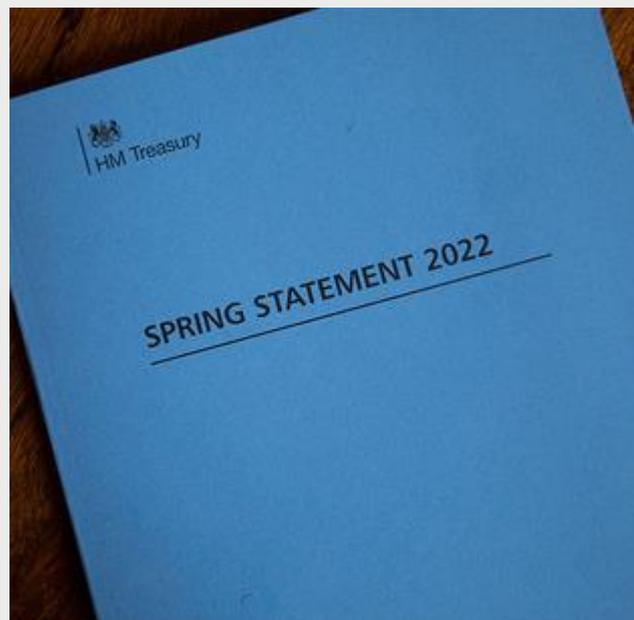
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## Unpicking what the Spring 2022 Statement means for R&D Tax Relief

Over the last few years, the Government's Research and Development agenda has been at the forefront of tax and economic policy. The COVID-19 pandemic may have slowed the rate of change, but it seems inevitable that reforms will be coming.

What are some of those changes, when can we expect them to appear, and what else may be coming down the line?

**Let's have a look.**



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## Spring Statement

During the Chancellor's Spring Statement Speech, R&D was barely mentioned. That was in stark contrast to the Autumn Budget in October 2021 when the Chancellor, Rishi Sunak, went into detail about expansions to the scheme and the important role that he saw research and development playing in the UK economy and its long-term growth.

However, the documents issued alongside the Spring Statement contained a lot of detail about the Chancellor's view of the R&D scheme. These provide us with some hints about where the scheme could be going.

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## A Reminder of the Upcoming Changes

In Budget 2021, Rishi Sunak announced several changes to the R&D scheme. As a quick reminder, they are:

- Data and cloud computing costs will become a new category of qualifying expenditure.
- Pure mathematics will qualify for tax relief, where it meets the other criteria of the scheme, supporting things like robotics and artificial intelligence (AI) development.
- A new restriction for payments to subcontractors or externally provided workers will come in to ensure only payments to those within the UK tax net are allowed (subject to certain exceptions).
- Additional information will have to be provided with a claim for R&D tax relief to enhance compliance and reduce the number of incorrect claims being submitted.

**We expect these changes to come into effect from April 2023.**

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## Accompanying Documents

Whilst the Spring Statement made no further changes, it did say more would be coming. Rishi Sunak's "Tax Plan" mentions the improvements (above) to the R&D scheme which will come into effect from April 2023. It also says to expect further reforms to be announced in the 2022 Autumn Budget. It is possible that these further changes could be implemented from April 2023, but we expect there to be a longer run-in period for any new reforms



In the 52-page accompanying document to the Spring Statement, there was a significant amount of data and comparison on the state of the UK's R&D tax relief scheme. The small and medium-sized scheme (SME) doesn't seem to be performing at the same level as the less favourable research and development expenditure credit scheme (RDEC), which is mostly utilised by larger companies and companies that do not qualify for the SME scheme.

The key takeaway from this document is that the government is **“looking to understand... what further changes might be needed to ensure our tax subsidies incentivise companies most effectively to invest in additional R&D.”** That could be good news and any expansion to encourage innovation is to be welcomed.

The documents also refer to increasing the generosity of the RDEC scheme to boost R&D investment in the UK. This could be beneficial to any company that is not currently eligible for the SME scheme, for example, if they have over 500 staff members, or if they receive grants and subsidies.

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## The Chancellor's Concerns

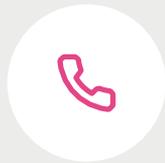
The Chancellor has two major concerns about the SME scheme. Firstly, it doesn't seem to encourage anywhere near as much private spending as the RDEC scheme. The SME scheme creates around £0.60–£1.28 of additional private spending for each £1 the Government spends. Conversely, the RDEC scheme creates £2.40–£2.70 of additional private spending per £1.

Secondly, it is expected that there are significant amounts of error and fraud within the SME scheme. To combat this, HMRC recently received additional funding for an additional 100 inspectors focused solely on challenging R&D claims.

At Easy R&D, we vet every claim to make sure it meets HMRC's issued guidelines and submit reports focused on reducing the chance of unwanted HMRC attention. In the unlikely event that HMRC do raise a challenge, we stand by all our claims and will act for you during the inquiry at no additional charge.



If you want to discuss a potential R&D tax credit, or an R&D tax relief claim you are already processing, please do get in contact. Our friendly and expert team of Easy R&D tax consultants and customer support managers are here to help



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