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5 October 2023



# Changes to the R&D incentives landscape

The options in food and drink - October 2023

# Contact details

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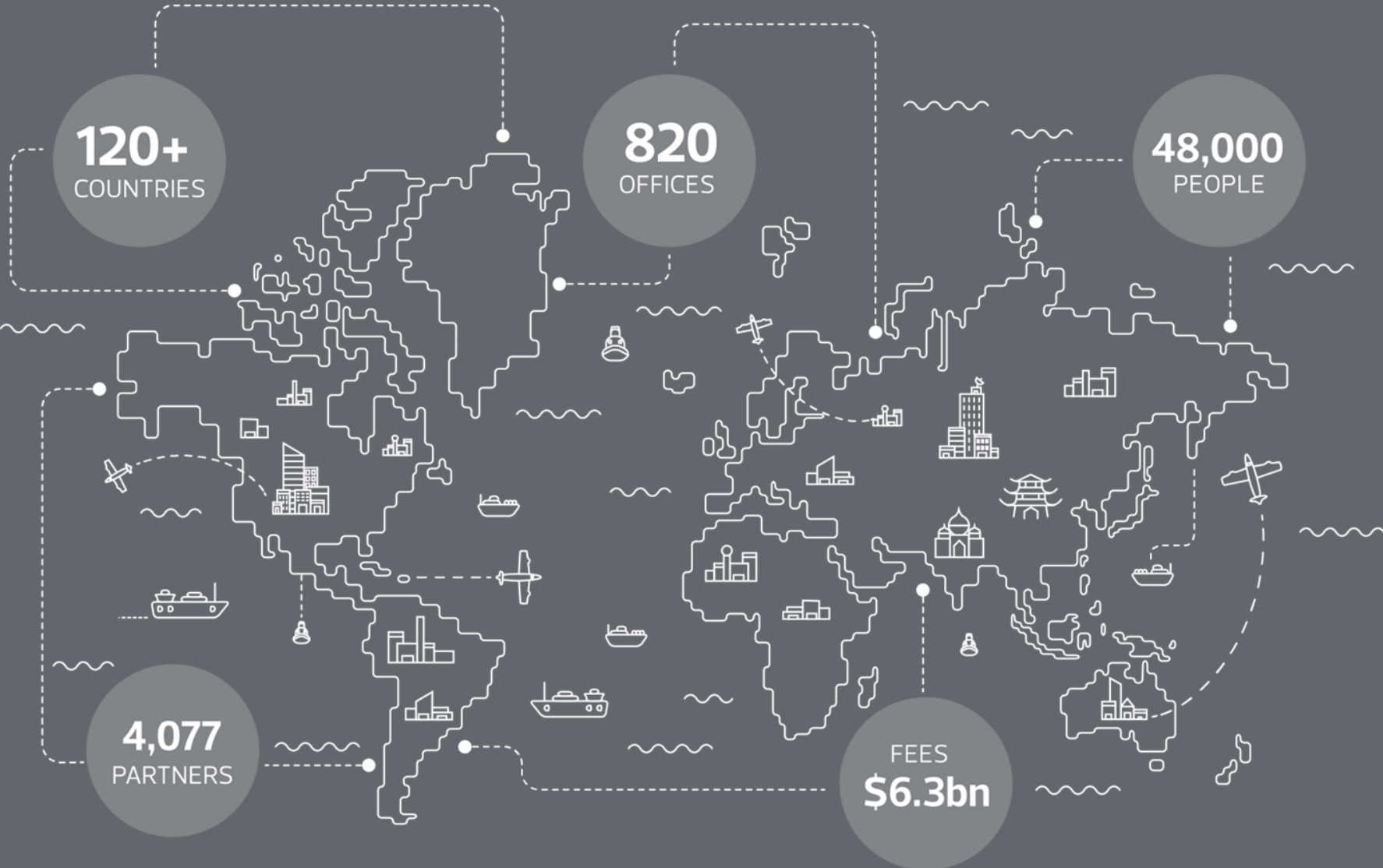
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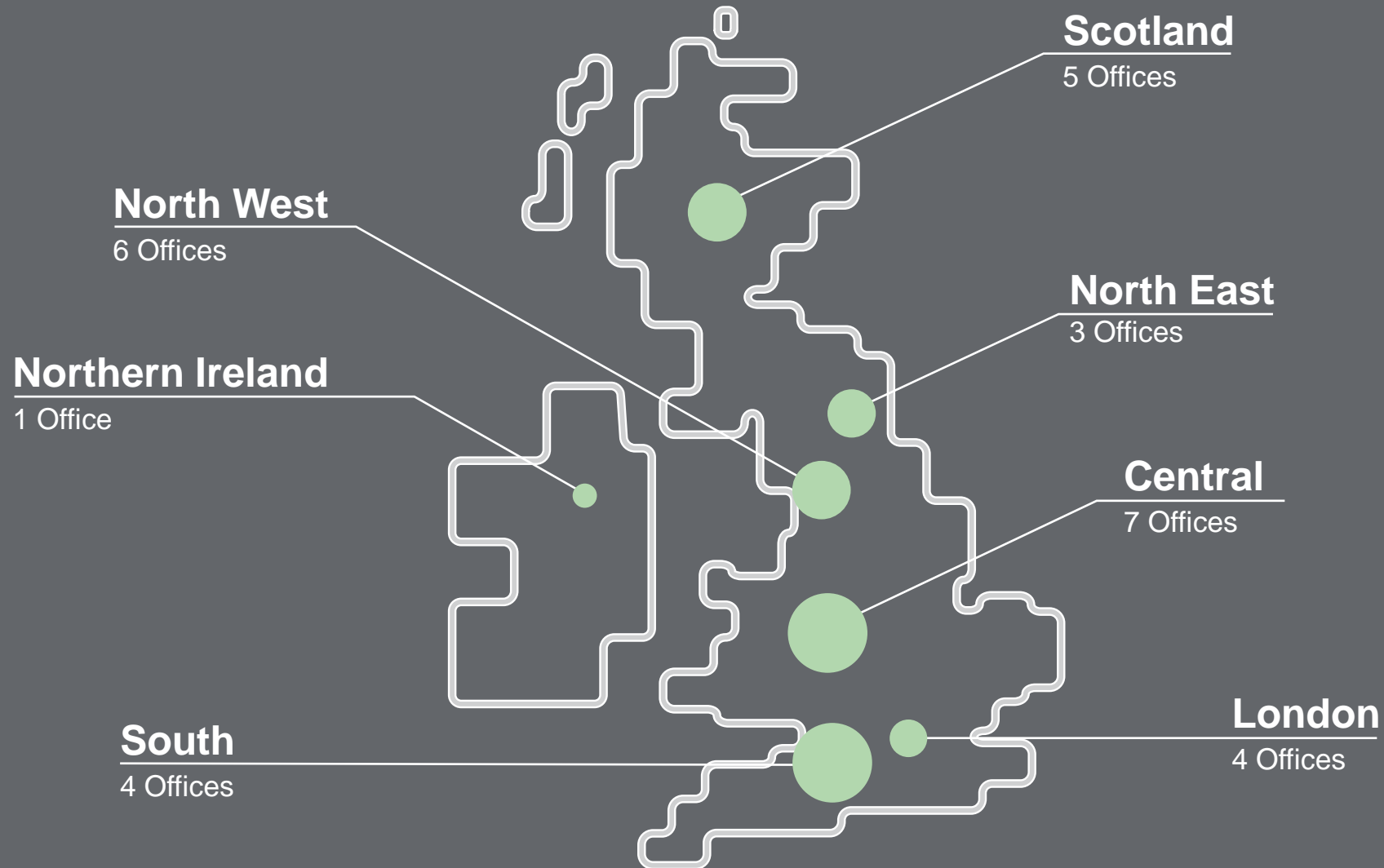
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 [Rachel Milloy](#)

# OUR GLOBAL FOOTPRINT



# WHERE ARE WE IN THE UK?



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# WHAT ARE WE SEEING ACROSS OUR CLIENTS?

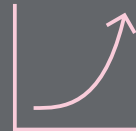
## CURRENT CHALLENGES



**Food price inflation**



**Consumer spending**



**Interest rates**



**Regulation**



**Labour shortages**

## OPPORTUNITIES



**New markets**



**Innovation**



**Health**



**Sustainability**



**Capital expenditure**

# AGENDA

**01** Overview of UK R&D tax incentives

**02** A summary of the recent changes

**03** R&D in the Food and Drink Industry

**04** Summary

# Overview of UK R&D tax incentives

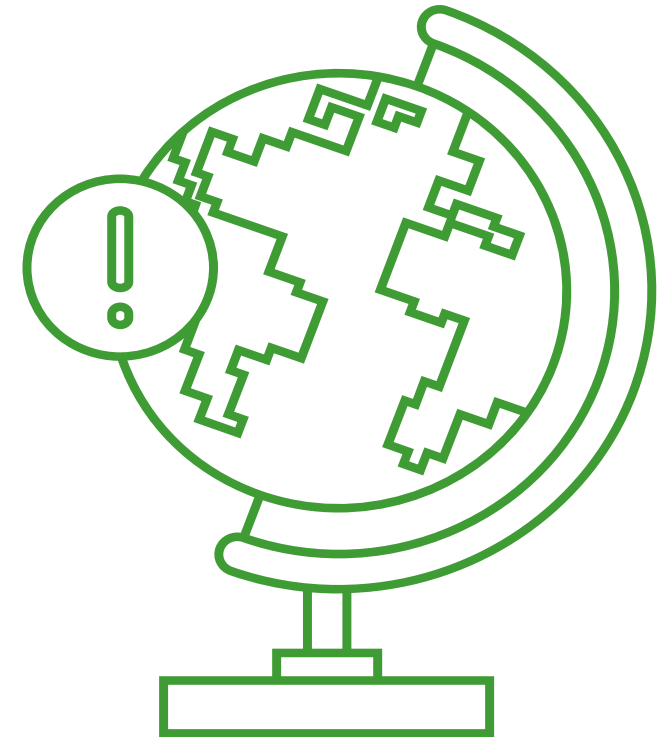
# 01



# OVERVIEW OF UK R&D TAX INCENTIVES

## Overview

- In the UK, R&D tax incentives have been available since 2000 for Small and Medium-sized Enterprises (SMEs) and 2002 for larger companies
- Part of government policy to encourage investment in technological innovation; to make companies more competitive; stimulate job and skills creation; and attract investment in the UK
- HMRC estimates that for every £1 spent on R&D tax credits, between £0.60 and £2.70 is additionally spent on R&D by UK companies\*
- Undergoing unprecedented change at the moment



# OVERVIEW OF UK R&D TAX INCENTIVES

## SME and RDEC regimes

	SME	R&D Expenditure Credit (RDEC)
Size criteria	<ul style="list-style-type: none"> <li>&lt;500 FTE employees and               <ul style="list-style-type: none"> <li>turnover &lt;€100m or</li> <li>gross assets &lt;€86m</li> </ul> </li> </ul>	Not SME
Form of benefit	Enhanced deduction; cash credit	Taxable cash credit
Net benefit	<p>Until 31 March 2023, £24 - £33 per £100 of qualifying expenditure (QE)</p> <p>From 1 April 2023, £18 - £21 per £100 of QE*</p>	<p>Until 31 March 2023, £10 per £100 of QE</p> <p>From 1 April 2023, £15 per £100 of QE</p>

# QUALIFYING R&D EXPENDITURE

Costing Category	SME	RDEC
Staffing costs	✓	✓
Externally provided workers (EPWs)	✓	✓
Subcontracted activities	✓	x*
Consumable/utility costs	✓	✓
Software licenses	✓	✓
Contributions to independent research	x	✓
<b>Tax years beginning from 1 April 2023</b>		
Data licenses	✓	✓
Cloud computing services	✓	✓

A summary of the recent changes

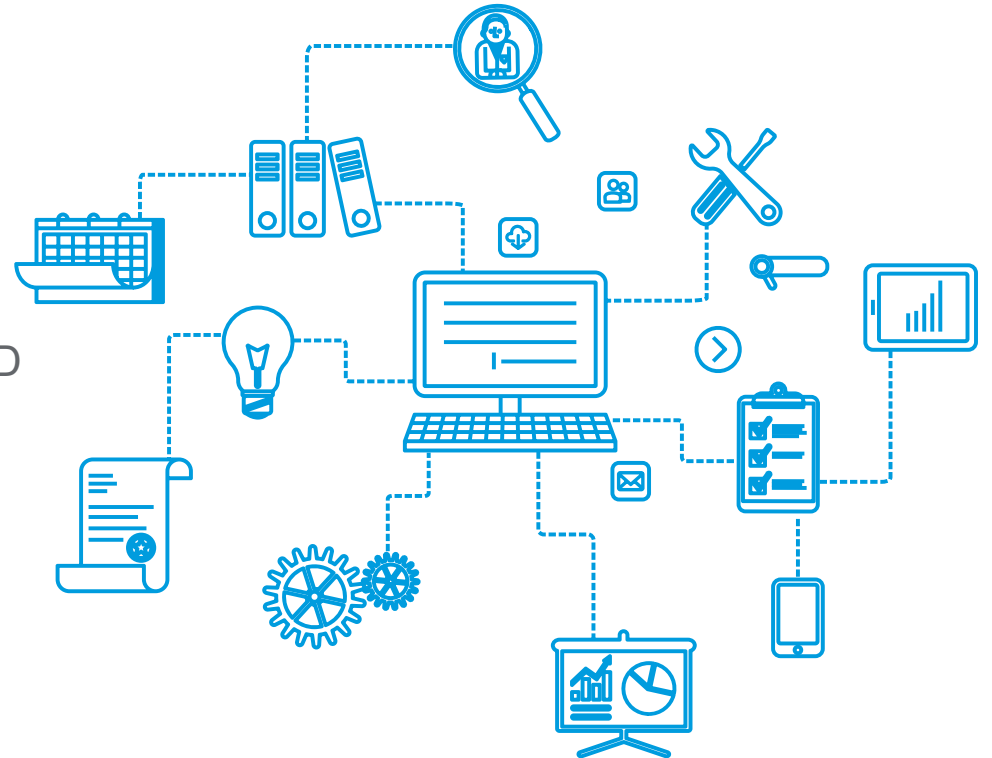
02

# MOST SIGNIFICANT CHANGE SINCE INTRODUCTION OF RELIEFS IN 2000 AND 2002

## Background and context – why change?

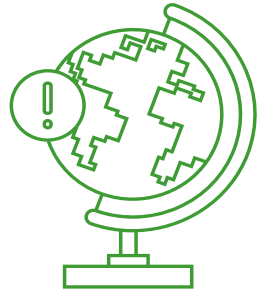
1. Large increase in R&D claims
  - Overall government budget now £6.7bn
  - c90,000 claims annually (c80,000 SME claims)
  - Over 50% of all claims < £25k in value
2. Effectiveness of incentives
  - Government estimates ‘additionality’ per £1 spent on R&D relief as:
    - SME regime: £0.60 - £1.28
    - RDEC / Large regime: £2.40 - £2.70
3. Concerns regarding fraud and error
  - HMRC estimates 5% (£469m) of claims contain fraud or error. SMEs account for 90% of ‘abusive’ claims

As a result, HMRC are introducing changes to tackle abuse and improve effectiveness of the reliefs



# UPCOMING CHANGES TO R&D REGIMES

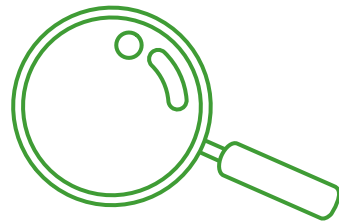
## 01 Focus on UK innovation



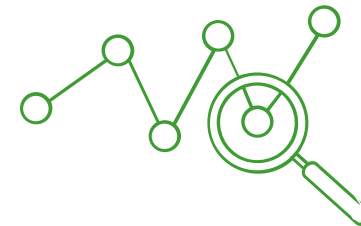
## 02 New R&D cost categories



## 03 Measures to tackle abuse



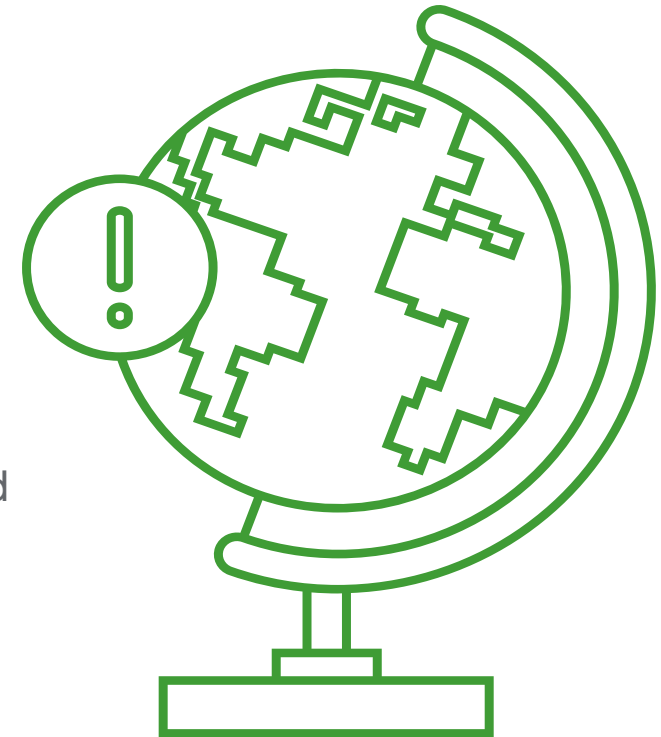
## 04 Rates of relief changes



# UPCOMING CHANGES TO R&D REGIMES

## 01 | Focus on UK innovation

- In effect for tax years beginning from 1 April 2024
- **Subcontracted R&D activities** – must take place in UK
- **Externally provided workers** – payments must be subject to UK payroll taxes
- Exemption exists if:
  - ✓ conditions necessary for the R&D are not present in the UK;
  - ✓ conditions are present in the location where the R&D is undertaken; and
  - ✓ **wholly unreasonable** to replicate the conditions in the UK



# UPCOMING CHANGES TO R&D REGIMES

## 02 | New R&D cost categories

- **In effect for tax years beginning from 1 April 2023**
- **Cloud computing costs**
  - Licence to use remote data storage and hardware (ex. AWS/Azure)
  - If client operates its own cloud computing service, the capital setup costs are non-qualifying, however, an element of operating cost (i.e. staff costs) may qualify
- **Data licence costs**
  - ex. licence to use financial market or climate data
  - Generally not claimable if right to publish, sell or share data with a third party, unless for purpose of collaborative R&D
  - Must be a licence, i.e. not capital purchase of data
- **Pure mathematics activities**
  - Unclear whether pure mathematics activities qualified previously
  - Guidelines updated so that they do
  - New qualifying activity – not new cost category





# UPCOMING CHANGES TO R&D REGIMES

## 03 | Measures to tackle abuse

- **Claims must be made digitally**
- **Requirement to submit an R&D Claim Notification form**
  - In effect for tax years beginning from 1 April 2023
  - First time R&D claimants and R&D claimants who have not made an R&D claim in any of the previous 3 periods
  - Latest date for submitting Claim Notification form is 6 months after the year end
  - If claim submitted within 6 months of the year end, no notification is required
- **Requirement to submit an Additional Information form**
  - In effect from 8 August 2023
  - Company details such as taxpayer identifying numbers and SIC code(s)
  - A breakdown of qualifying expenditure by category and project
  - Contact details of agent working on the claim and main company R&D contact
  - Descriptions of the qualifying projects, covering 50%-100% of the total expenditure (depending on total number of projects)



## Increased HMRC compliance activity

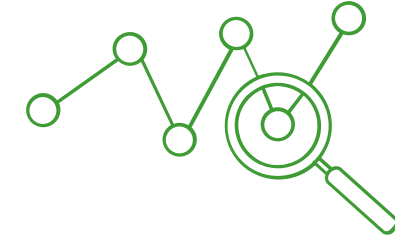
### Unprecedented increase in number of enquiries from HMRC

- Initial letter advises of enquiry and is usually a standard letter with minimal or no review of claim beforehand
- No allocated case worker in most instances, all communication expected to be via correspondence
- HMRC taking very aggressive approach - seeking to quickly conclude no basis for a claim and close enquiry with penalties becoming commonplace



# UPCOMING CHANGES TO R&D REGIMES

## 04 | Rates of relief changes



- Applies to qualifying expenditure incurred on or after 1 April 2023
- May split accounting period and important to determine when qualifying spend occurred

	RDEC		SME	
	Pre 1.4.23	Post 1.4.23	Pre 1.4.23	Post 1.4.23
RDEC credit (gross) <sup>1</sup> / SME additional deduction	13%	<b>.20%</b>	130%	<b>.86%</b>
RDEC credit (net of CT) / SME repayable credit rate	10.5%	<b>15%</b>	14.5%	<b>10.0%</b>
Knowledge Intensive – SME repayable credit rate <sup>2</sup>	-	-	-	<b>14.5%</b>

### Examples

Qualifying spend	£100,000	<b>£100,000</b>	£100,000	<b>£100,000</b>
RDEC credit (net of CT)	£10,500	<b>£15,000</b>		
SME tax paying (tax saving) @19%/25%			£24,700	<b>£21,500</b>
SME loss making, maximum tax credit			£33,350	<b>£18,600</b>
SME loss making, maximum tax credit (R&D intensive) <sup>2</sup>			£33,350	<b>£26,970</b>

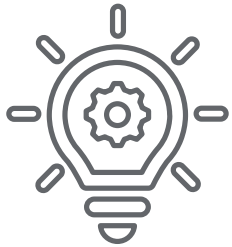
<sup>1</sup> RDEC credit can be accounted for above the line improving EBITDA and earnings per share

<sup>2</sup> Where QE is 40% of total expenditure

# R&D in the Food and Drink Industry

# 03

# DEFINITION OF R&D FOR TAX PURPOSES



Seek to achieve an  
**advance in science or  
technology**

- **The extension to overall knowledge** or capability in a field of science or technology
  - **The development of a new** product, process, or device
  - The **appreciable improvement** to an existing product, process, or device
  - The use science or technology to **duplicate the effect** of an existing product, process, or device
- The advance is measured against knowledge in the **public domain**
- **Success is not a requirement!**



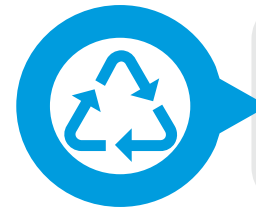
Seek to overcome  
**scientific or technological  
uncertainties**

- Uncertainty whether something is scientifically possible or technologically **feasible to achieve**, or the **route to achieving it in practice**
  - Includes scientific and technological uncertainty whether is it possible to achieve the aims in a **cost-effective, reliable, or reproducible manner**
  - This includes **system uncertainty**
- The concept of uncertainty marks the **start and end of R&D**

# EXAMPLES OF R&D IN THE FOOD AND DRINK INDUSTRY



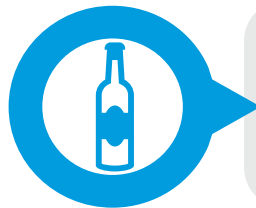
Revisions of recipes to meet newly introduced regulatory standards and consumer demands.



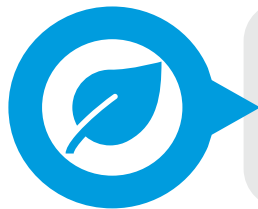
Seeking to improve environmental performance through improvements to existing production process to minimise; waste, water usage, gas or electric consumption.



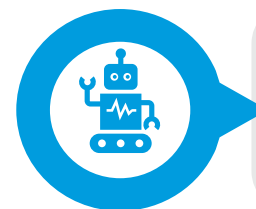
Investigation into new raw materials, or managing quality issues such as; significant seasonal variation, supply chain challenges or cost constraints.



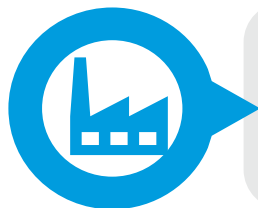
Development of new or improved packaging, where the type and design of the packaging impacts on the product.



Making improvement to shelf life of product, quality of product or meeting new consumer requirements such as; low sugar, low abv, gluten free and dairy free.



Automation of packaging processes or introduction of new; bottling, labelling or casing technology.

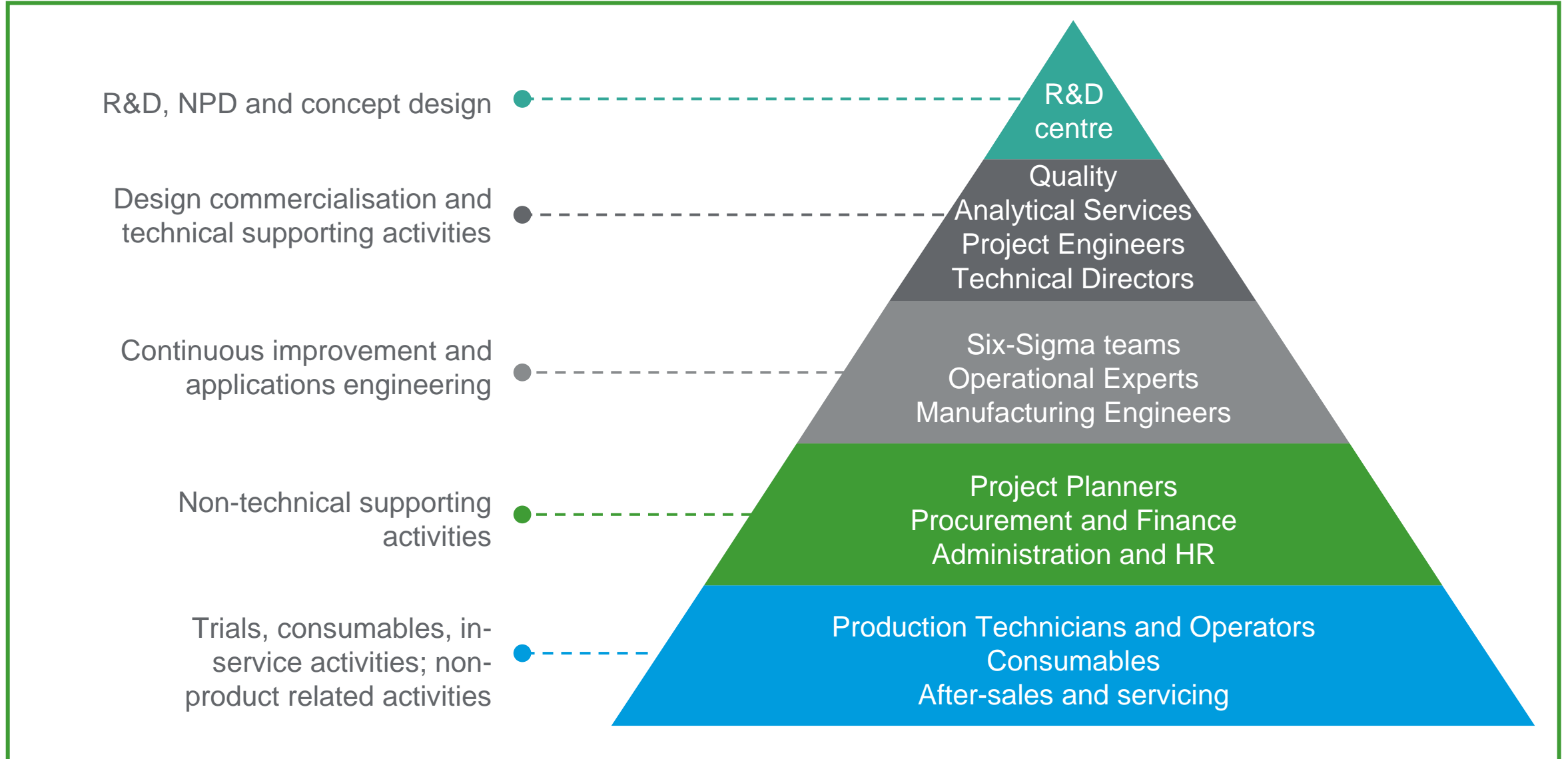


Developing new or improving existing manufacturing process to; improve quality, increase production rate or reduce cost.



Projects seeking to introduce or integrate significant new IT infrastructure, which is non-trivial in nature.

# ARE YOUR R&D CLAIMS JUST THE TIP OF THE ICEBERG?



# Summary

04

# SUMMARY



R&D relief is still very generous



Consider impact of Additional Information form post-31 July



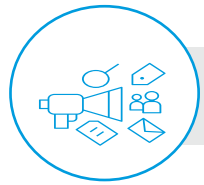
Model / plan for changes in rates of relief from 1 April 2023



Model / plan the impact of rules changes on your claims (and effective dates)



Be aware of the increased risk of HMRC enquiry



More change is coming – merged single regime (as early as 1 April 24)



# Questions?

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