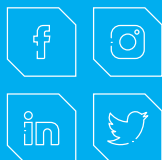


The Autumn Budget 2021

Technology
Sector



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Investment in a More Innovative, High Skilled Economy - Rishi Sunak

Kieron Batham-Tomkins breaks down the budget's effects on the Tech Sector

“Investment in a more innovative, high skilled economy” was Rishi’s message today, as he continued... “Because that is the only sustainable path to individual prosperity...”.

After 18 months of a pandemic bitten world, I had little idea about what a Budget could hold for us, but it seems that pre-announced measures were the backbone of Rishi Sunak’s speech held today on the 27th October.

Innovation and R&D spending has been at the forefront of Government speeches for a good few years now and I was hoping to hear some positive reforms to R&D tax credits, especially around the repayable tax credit at 14.5% given the planned rise of Corporation Tax rates from 19% to 25% effectively widening the gap between profitable and loss making innovative companies. Unfortunately, there were no such announcements but there were some R&D alterations announced which we will come onto.

Inflation

If we start with a general update on inflation, Rishi announced that Inflation in September 2021 was at

3.1%, with the OBR expecting this to average 4% next year. Sunak explained this could be reasoned in two ways:

- 1) Demand for goods outweighing supply chains as the world reopens; and
- 2) Factories scaling up production as they reopen

This is no surprise to me given my conversations with clients around the struggle for raw materials and recruitment of staff to return to 100% capacity.

Economy

With regards to economy growth this year, this is revised up from 4% to 6.5%. The OBR then expects the economy to grow by 6% in 2022, and 2.1%, 1.3% and 1.6% over the next three years.

Innovation

On to innovation and Sunak began this section with impressive statistics stating that while the UK has less than 1% of the world’s population, we have 4 of the world’s top 20 Universities, carry out 14% of the world’s most impactful research and have the 2nd most Nobel Laureates.



Supply Chain & Staff

To help with improving supply chains, temporary visas had already been announced, but announced today was a suspension to the HGV Levy, delaying this until August 2023 and a freeze on Vehicle Exercise Duty for HGV’s.

Although staff shortages have featured heavily for many industries, especially the skilled labour markets, in July last year at the height of the pandemic, unemployment was expected to peak at 12% but today, the OBR expect unemployment to peak at 5.2%.

That means over 2 million fewer people out of work than previously feared.



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R&D Investment

Onto the numbers and Rishi confirmed the government pledge to increase R&D investment to **£22bn**, but due to priorities in other areas has had to move this target back to 2026/27. By the end of this current parliament though, R&D investment is expected to have risen to £20bn a year, a cash increase of 50%, or 1.1% of GDP. This is higher than Germany, France and the USA at 0.9%, 1% and 0.7% respectively.

So what do these increases mean?

- An increase in core science funding to £5.9bn per year by 2024-25 meaning a cash increase of 37%.
- Meet the full costs of associating with Horizon Europe.
- Establish a new Advanced Research and Invention Agency with £800m by 2025/26; and
- Strengthen focus on late-stage innovation, increasing Innovate UK's annual core budget to £1bn, double what it was at the start of the Parliament.



The government pledge to increase R&D investment to...

£22bn by 2026/27

Attracting Talent

Back onto the subject to Nobel Laurates and Rishi noted that a third of our winners have been immigrants and that half of our fastest growing companies have a foreign-born founder. So, to help continue to attract the brightest minds from around the world, a new 'Scale-Up Visa' was announced making it quicker and easier for fast-growing businesses to bring in highly skilled individuals.

Also, a new 'Global Talent Network', initially launching in the Bay Area, Boston and Bangalore will help identify, attract and relocate the best global talent in key science and technology sectors. This was all part of the plan to make the visa system for international talent the most competitive in the world.

R&D Tax Credits

On to R&D tax credits and it was encouraging to hear that UK tax relief has been claimed on £48bn of spending, yet UK business investment was only around half of that at £26bn which means lots of funding for research which is not taking place in the UK.

So, to join other countries such as Australia, Canada, Hong Kong, Singapore, Switzerland and the

USA, from April 2023, R&D tax reliefs will shift to incentivise greater investment in the UK. More details to be announced in due course following consultation.

On a positive note, after calls from many in the industry the R&D scheme will be extended to include both Cloud Computing and Data Cost to make the relief fit for the modern world, again from April 2023.

Corporation Tax - Rates

From a Corporation Tax point of view, there was no change to the planned rise in rates, up to 25% from 1 April 2023 for profits exceeding £250,000.

Corporation Tax — Annual Investment Allowance

What was announced was an extension to the Annual Investment Allowance which was expected to come to an end on 31 December 2021. The £1m tax relief on qualifying capital expenditure has been extended to 31st March 2023.

National Living Wage

On employee pay, the National Living Wage is set to increase by 6.6% next year to £9.50 per hour, meaning an increase of over £1,000 for a full-time worker.



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In Summary...

It's all spend, spend, spend, but innovate, research and develop to create an innovative, high skilled economy fit for a post pandemic modern world.

1.25% National Insurance & Dividend Levy

And finally, as previously announced, the government is going ahead with the 1.25% increase in Employer and Employee National Insurance rates, along with the tax paid on dividends, increasing the rates to 8.25%, 33.75% and 39.35% depending on if you are a basic, higher or additional rate taxpayer respectively.

What next?

Keep an eye out as more details and consultations are released by HMRC.



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R&D investment expected to rise to

£20bn

a year, a cash increase of **50% or 1.1%** of GDP by the end of the Parliament. Increasing to **£22bn by 2026/27.**

A new **'Global Talent Network'** to attract and relocate the best global talent in key science and technology sectors.

UK tax relief has been claimed on

£48bn
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From...

April
2023

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More details to be announced in due course following consultation.



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National Living Wage is set to increase by

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Contact Us

Start the conversation today with one of our BHP account managers or tax specialists...



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The **Annual Investment Allowance of £1m** which gives relief on qualifying capital expenditure has been extended to...

31st
March
2023

The government is going ahead with the...

1.25%

increase in **Employer and Employee National Insurance rates**, along with the tax paid on **dividends**.

