Autumn Statement 2023

Technology

When is a merger not a merger?

Research & Development

The big announcement, as expected, was a change to the Research and Development (R&D) tax relief scheme. It was widely expected that the two existing schemes, RDEC and SME, would be merged into a single scheme to simplify the R&D claim administration process. One might assume that a merger of the two existing schemes would result in a single remaining scheme, but that is not the case; there will be a revised version of the RDEC scheme and a scheme for loss-making SME R&D-intensive companies.

The changes discussed will take place for accounting periods starting on or after 1 April 2024 — the impact of these changes will therefore be staggered, with a company with a 31 December year-end not having to implement the new changes until 1 January 2025.

R&D Merged Scheme

The new above-the-line credit scheme will be known as the 'merged scheme' and includes:

- Adopting an approach to contracted-out R&D, which allows more large companies to claim for the costs of the work contracted out while also removing the complex rules around qualifying bodies;
- Incorporating the more generous SME scheme PAYE and National insurance contributions cap being 3x the amount paid, rather than 1x;
- Restrictions on relief for overseas expenditure.

In a further simplification, the rules relating to subsidised expenditure in the existing SME scheme will not be carried forward into the new merged scheme, meaning that where a company receives a grant covering part of the costs of their R&D (for example), the amount of relief available will not be reduced.

The rate offered under the merged scheme will be implemented at the current RDEC rate of 20% of R&D expenditure. The notional tax rate applied to those making profits within the small profits rate will be 19%. This same notional rate will be applied to loss-makers in the merged scheme rather than the 25% main rate currently set in the RDEC.

R&D Intensive SME Companies

The "new" second scheme is, effectively, just for R&D-intensive SME companies that are making a loss. To qualify for this scheme, a company must currently have qualifying R&D expenditure that is 40% or more of its total tax-deductible expenditure. The threshold for when a company achieves R&D intensive status has been changed for accounting periods starting on or after 1 April 2024 from 40% to 30%. There will also be a one-year grace period which allows a company that fails to meet the intensity threshold to continue to claim, provided it met the intensive status in the previous year.

Companies qualifying for this scheme will continue to enhance their R&D expenditure at the 86% rate and claim an additional deduction to create or increase a loss. Companies can then surrender those losses relating to R&D for a repayable tax credit equal to 14.5% of the loss value (subject to PAYE / NIC cap mentioned above).

R&D Repayments & Tax Credits

With immediate effect, R&D advisors, tax agents and other third parties will no longer be able to include their bank account details on any claims for tax relief. This means that, subject to limited exceptions, all repayments will be made directly to the claimant company. Any claims already made with a third-party bank account nominated for the repayment will be processed as normal, but no new third-party details will be accepted.

Sectors

The Autumn Statement announced a number of key investment areas in the technology sector, including zero-emission vehicles, life sciences and energy-efficient aircraft technology, with some of the headlines from the Autumn Statement including:

- Over £2 billion is being made available for the automotive sector to support the manufacturing and development of zero-emission vehicles, their batteries and supply chain
- £975 million is being made available for the aerospace sector to support the development of energy-efficient and zero-carbon aircraft technology
- £520 million is being made available for life sciences to build resilience for future health emergencies and capitalise on the UK's R&D strengths
- £960 million is being made available for green industries to support strong clean energy manufacturing capacity across the UK and seize opportunities from the global net zero transition.

Further details on the nature of these investments will be made in due course.

To discuss any of the points raised please get in touch with your normal BHP contact, **James Clark** or **Kieron Batham-Tomkins.**

If you have any questions in relation to what we have mentioned here, please get in touch with your usual BHP contact.

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Contact Us

+44 (0) 333 123 7171
bhp.co.uk