

Response to R&D Tax Reliefs Review

Association of Accounting Technicians (AAT)

Date of submission: 10 March 2023

About AAT

- AAT is the UK's leading qualification and professional body for technical accountants and bookkeepers. We have around 51,000 members in over 100 countries and approximately 75,000 students studying our qualifications.
- Founded in 1980, AAT is a registered charity committed to increasing the availability of high-quality accountancy education and raising professional standards. We aim to advance public education, promote the study of accountancy, prevent crime, and promote and enforce standards of professional conduct for accountants.
- Over 600,000 small businesses are supported by more than 6,000 AAT licensed members to help build the businesses' financial capabilities.
- An AAT Accountant is a qualified accounting professional with the practical and technical skills needed to support businesses with their accounting activities. Typical job roles include: Financial Accountant, Commercial Analyst, Senior Finance Officer, Payroll Manager, VAT Accountant, and Tax Supervisor.

Executive Summary

- **AAT agrees that a single scheme for R&D tax relief would be beneficial.** AAT advocates for a fairer, more transparent and simpler tax system. Consolidating R&D relief into a single scheme under the RDEC structure would reduce complexity, as would improved and clearer guidance. The RDEC cap should also be the one used in a new single scheme.
- **However, a new scheme should not neglect the need to provide a targeted higher rate relief to SMEs.** A simplified single scheme should still have measures which offer SMEs higher rate relief to incentivise investment in R&D. If the Government want to grow the economy and boost productivity, it must still offer relief that incentivises small businesses to invest in R&D.
- **AAT would recommend the Government conduct research to evaluate how to treat subcontractors.** The determining factor should be which way best incentivises R&D investment and supports small businesses.
- **AAT would be wary of giving more generous support to specific sectors or types of R&D.** This would go against the Government's policy principle of simplification. Instead, we would argue for a higher rate relief for SMEs but under the structure of a single RDEC-like scheme.
- **Whatever scheme is chosen, any implementation date must be given well in advance, accompanied with clear guidance for businesses.** We would have no objection to the April 2024 start date so long as businesses were consulted on it well ahead of time and provided with clear unambiguous guidance on how to comply.
- **AAT does not support a reintroduction of a threshold and instead calls for compulsory professional body membership for the entire paid-for tax advisory market.** If the rationale behind introducing a threshold is to reduce error and fraud, there is a much more effective way to tackle this while not disadvantaging SMEs (as a threshold would). The Government could instead require compulsory membership of a recognised professional body which has robust disciplinary measures.

If you have any queries, require any further information or would like to discuss any of this consultation response in more detail, please contact Jack Withrington, Head of Public Affairs & Public Policy at AAT: jack.withrington@aat.org.uk.

Response to consultation questions

Main features

Q1: Do you agree a new scheme should be an above the line RDEC like credit? If not, what alternative would you propose?

Yes. AAT supports the principle of simplifying R&D tax relief into one scheme which would remove boundaries between the RDEC and SME schemes and provide certainty over cash value of credit. However, any new scheme must not neglect the need to still provide targeted higher rate of relief to SMEs. At a time when economic growth and boosting productivity are the Government's key economic objectives, it would be counterproductive to disincentivise small businesses to invest in R&D. As such, there should still be opportunities for greater relief for SMEs.

Q2: Does the taxability and subsequent different post tax net benefits impact your decision making when allocating R&D budgets?

Several of AAT's members have said it did not impact their decision making of their clients. One member said that the availability of extra R&D tax relief was generally only considered at a later date.

Q3: If you use RDEC now, is there anything in your view that should be changed?

No comment

Subcontracting

Q4: Do you agree the same treatment of subcontracting should apply to all claimants in the merged scheme?

Yes.

Q5: If so, where R&D activity is subcontracted, do you think that the customer should claim the tax relief, as in the SME scheme, or the subcontractor, the person carrying on the R&D, as in the RDEC?

While AAT members did not express a preference, it is AAT's recommendation that the Government undertakes research to determine which best incentivises R&D and supports small businesses.

Q6: Can you see any positive or negative impacts on your business or sector from the Government adopting either approach?

As with Q5, AAT would recommend the Government does further research into this area to assess which best incentivises R&D.

Q7: Do you have an alternative model you think could apply all claimants in the new scheme? Please provide qualitative and quantitative evidence with your proposal.

No comment

Cap on payable credits

Q8: What are your experiences of the PAYE / NICs cap?

The cap has helped to prevent abuse although several AAT members said that their clients were not claiming the amounts large enough to be affected by the cap.

Q9: Are there any ways the Government could simplify the PAYE / NICs cap whilst ensuring there is protection against abuse?

No comment

Q10: Which of the SME and RDEC PAYE & NICs cap should the Government implement in the new scheme?

In terms of structure, the RDEC cap would be the preferred option as it is simpler but the cap itself should be higher than it is now. AAT would also recommend that a single scheme cap still allows for more generous relief for SMEs.

Q11: Should the Government change the way either cap is calculated if it is taken forwards? And if so, how?

As above, AAT considers that the RDEC cap is too low and should be more generous, specifically for SMEs.

Additional support for specific companies

Q12: Do you consider the government should provide more generous support for different types of R&D or more R&D intensive companies relative to less R&D intensive companies?

AAT would be wary of giving more generous support to specific sectors or types of R&D within a new scheme as it would go against the Government's policy principles for simplification. Adding further definitions on what sectors or type of R&D are eligible for more generous relief would clearly add more complexity which would especially harm smaller companies. We would instead recommend there is a higher rate of relief for SMEs under the structure of a single RDEC-like scheme, recognising the higher barriers SMEs face in accessing other forms of finance.

Q13: In the event this were to be done, how might this best be achieved within an overall cost envelope? Within your answer, please include details of your sector and evidence supporting the impact the R&D relief has on your R&D investment and the impact that has on UK productivity.

No comment

Guidance and transition

Q14: If the schemes are merged do you agree the Government should implement the merged scheme on accounting periods starting on or after 1 April 2024?

AAT has no objections to this timescale as long as the rules and guidance on a new scheme were developed in consultation with businesses and published sufficiently in advance of the implementation start date so as to provide a reasonable amount of time for businesses to digest. At a time when there are already several transformational reforms being undertaken by HMRC, it would be imperative that businesses are given sufficient time to accommodate this change and be able rely on clear, unambiguous guidance on how to comply with the new scheme, particularly given that, as stated in evidence AAT has previously given on this matter, SMEs in particular have insufficient understanding and awareness of the complexity relating to R&D tax reliefs.

Q15: How can Government ensure SMEs are supported in the transfer into a new scheme?

As with Q14, if the rules and guidance were clear and available in good time before the start date, as well as consulted on with representatives of SMEs, there should be sufficient support to enable a transition to the new scheme.

This should be supported with clearer unambiguous guidance provided to small businesses. AAT believes there is still an insufficient level of awareness and understanding of R&D relief among SMEs, resulting in large part to either too complex or too brief guidance provided by HMRC.

This is further complicated still by the fact that a third of tax advisers are unregulated and not members of a professional body, despite accounting for two-thirds of complaints to HMRC. Given the complexity of R&D relief, the government should consider requiring all paid-for tax advisers to be a member of a recognised professional body to decrease error and fraud and provide a level of oversight that doesn't put the burden on the taxpayer. Compulsory professional body membership would also deliver a more effective transition to a new scheme.

Qualifying Indirect Activities

Q16: Does claiming for expenditure on qualifying indirect activities influence your decision to undertake R&D? Within your answer, please include details of your sector and the impact claiming for qualifying indirect activities has on your R&D investment. Please also detail how much of your claim is defined as qualifying indirect activities, with appropriate evidence.

No comment

Threshold

Q17: Do you think a threshold should be implemented? If one was implemented at what level should it be introduced?

No. As the consultation notes, removing the threshold has previously been "successful, encouraging companies to start doing small amounts of R&D they may not otherwise have considered". Any reintroduction of a threshold would disadvantage SMEs and disincentivise them to invest in R&D which could harm productivity.

The stated intention of introducing a threshold in the consultation is to reduce fraud and error. AAT has proposed a much more effective solution to reducing fraud and error across the whole tax system; requiring compulsory membership of a professional body.

A third of tax advisers and accountants do not belong to a professional body yet they account for two-thirds of complaints to HMRC. If there was a requirement for paid-for tax advisers to join a recognised professional body with robust disciplinary procedures, it would alleviate the administrative burden and cost away for HMRC while still enabling effective oversight and sanctions of the tax advisory profession.

This solution would come at a low cost to the taxpayer while also avoiding the harm to SMEs that a threshold would pose.

Q18: What is the average amount of R&D expenditure per year per firm in your business or sector?

No comment