Glendinning House
6 Murray Street
Belfast, BT1 6DN

T: 02890249222
E: info@sumerni.co.uk
caroline.keenan@sumerni.co.uk

www.sumerni.co.uk

SUMER NORTHERN IRELAND

R&D Tax Credit Compliance Changes

R&D Tax Credit Fraud and Error Reduced Due to New Compliance Measures – What Does this Mean for Businesses?

Important changes have been instigated by HMRC to R&D Tax Credits, aimed at reducing fraud and error in the scheme. As a result, most businesses claiming R&D tax relief will need to adapt to new processes and be aware of the types of evidence that HMRC will now expect. In this article, we'll look at the factors involved, and what these new compliance measures might mean for your business.

An Outline

The HMRC Annual Report and Accounts for 2023 to 2024 shows a significant drop in the level of error and fraud in R&D Tax Credits. The overall estimate of error and fraud has fallen from 17.6% of the estimated cost of the reliefs in 2021-2022 to 7.8% in 2023-2024. This reduction is largely due to the introduction of new compliance measures, increased scrutiny on claims, and a rise in the number of R&D compliance officers.

In a second major development, there has been a substantial increase in the tax savings under the RDEC scheme and a simultaneous decrease in the savings of the SME scheme. This shift is primarily due to two key factors:

1. Changes in tax relief rates
2. The introduction of the mandatory Additional Information form

There has also been a fundamental decision to merge the two schemes from accounting periods beginning on or after 1 April 2024 in a bid to simplify the R&D environment however since R&D intensive companies will remain under the SME scheme, simplification is not guaranteed.

New Compliance Measures

Essentially, businesses claiming R&D tax relief will now need to adhere to stricter compliance measures. Some of the main changes include:

- Mandatory Additional Information Form for all claims submitted after 8th August 2023
- More detailed project narratives and expenditure breakdowns with an increased focus on the baseline technology at the inception of the project
- Increased number of HMRC compliance officers
- Higher rate of enquiries (now around 20% of all claims submitted)

Apart from these measures, there have also been changes to the tax relief rates:

- SME additional deduction rate reduced from 130% to 86% as of 1st April 2023.
- SME credit rate decreased from 14.5% to 10%.
- RDEC rate increased from 13% to 20%, and becomes Merged scheme from Accounting periods beginning on or after 1 April 2024.

What Difference Does This Make?

The new compliance measures matter for two key reasons:

1. They impact the level of detail and documentation required for R&D claims.
2. They can affect the value of claims and the likelihood of HMRC enquiries.

We consider these in more detail below.

Changes to R&D Tax Relief Claims

Additional Information Form: This new mandatory form requires detailed company information, contact details for a senior officer responsible for the claim, and a breakdown of qualifying expenditure per project.

Project Narratives: For one - three R&D projects, narratives must cover 100% of the qualifying expenditure. For four – ten projects, narratives must cover 50% of the spend (with a minimum of three narratives submitted).

Increased Scrutiny: With more compliance officers and a higher rate of enquiries, HMRC is taking a more proactive approach to verifying claims. This is welcome if it weeds out nefarious, fraudulent claims, however, a change in the enquiry structure within HMRC may mean a different type of enquiry with less experienced case workers and this can prove time consuming for genuine claimants.

Rate Changes: The reduction in SME rates and increase in RDEC rates have shifted the landscape of R&D tax relief, potentially making the RDEC scheme more attractive for some businesses.

Impact on Businesses

These changes have been widespread and apply to all claims across the SME and RDEC schemes. While they may have successfully reduced fraud and error, there are concerns that they may also be deterring some valid claims.

HMRC acknowledges this risk in their report, stating: “Given what HMRC now knows about the extent of non-compliance in the schemes, it will need to consider whether the steps it is currently taking are adequate and whether it is striking the right balance with its compliance interventions, to avoid deterring valid claims.”

What Happens Next?

A decision is needed as to how to approach R&D claims in this new landscape. Which approach will work best for you will depend on your individual circumstances.

As discussed, in the short term, these new measures mean increased administration and potentially more complex claims. There may also be implications for the records you keep and how you document your R&D activities. HMRC may expect to see contemporaneous planning documents, emails, milestone etc.

We can explore all this with you and help you plan the best way forward. In the meantime, if you're considering applying for R&D tax credits, we advise seeking guidance from a reputable advisor, such as Sumer Northern Ireland. We are well-versed in these new processes, having guided clients for years towards a more thorough record keeping process for R&D recording with a focus on real time analysis and can guide you through the entire process, helping to determine if your company qualifies and ensuring your claim adheres to all new requirements and expectations.

If you have any questions or need assistance, please do not hesitate to get in touch with Sumer Northern Ireland.