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HM Revenue
& Customs

Customer experience in claiming Research and Development tax reliefs

HM Revenue and Customs Research Report 634

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Disclaimer

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1. Executive summary

1.1 Introduction

The Research & Development (R&D) relief scheme plays a key part in innovation in the UK as the largest single mechanism through which businesses can claim relief for R&D activities. However, non-compliant behaviour impacts upon perceptions of public spending and perceived fairness for businesses.

HMRC commissioned Kantar Public to conduct qualitative research using in-depth interviews and a journey mapping approach to explore how businesses understand and claim R&D tax relief.

Specifically, the research sought to examine:

- What and who makes decisions and is responsible for the claim;
- How businesses find out about the reliefs;
- Guidance and support received, used and needed;
- Use and influence of agents;
- What compliance attitudes and behaviours companies demonstrate in making a claim?

1.2 Views and attitudes towards R&D

Businesses were positive about the R&D relief scheme and the support available for businesses seeking to innovate in their sector. The purpose was perceived to be a reward or incentive to invest, or through a more economic lens, as an investment in the short term for business growth and profitability in the longer term. That said, the scheme was considered more complex and difficult to understand than other business processes, particularly for those without a financial background or internal support for finance. While there was a good level of understanding around the criteria for R&D relief, for example projects needing to overcome uncertainty and be genuinely innovative, there was a lack of understanding around what could and could not be claimed as part of R&D, as well as the calculations around it.

R&D was considered hugely important to businesses. This was partly due to claimants being in innovative sectors with a strong culture of innovation and the need to compete with other businesses to best serve clients and increase efficiency. The benefits of R&D were not considered to be solely for businesses but also for the UK. This was described in terms of the UK's reputation as an innovator, economic benefits to the UK and providing jobs and projects that align with UK priorities, for example net zero.

1.3 The R&D claimant journey

Businesses generally first heard about R&D relief from sources external to HMRC, primarily through accountants or other businesses in the sector. That said, most businesses had received contact from specialist agents in relation to R&D relief, either through cold calls, social media or emails.

Deciding to apply for relief was straightforward for businesses because of the sector and work they undertook and the reassurance that they received from trusted sources about R&D. For businesses with experience of claiming, they became used to claiming R&D and this became inbuilt to their processes and ways of working.

Businesses that decided to use a specialist agent or accountant to complete claims were generally smaller with less financial resource internally and less experience of claiming. They used specialist agents or accountants to gain reassurance that they were claiming correctly, as a result of the level of internal capacity and because of the perceived complexity of claims.

For those completing claims without external support, they tended to have internal finance staff to spearhead the claim and therefore had a good knowledge base and experience of claiming the relief. The claim was generally completed by those with financial knowledge in collaboration with senior management or technical teams and amounts to claim were calculated based on timesheets and other information collected by the business over the year. Some businesses used accountants as a second pair of eyes to check information.

For those that used an accountant or specialist agent, the input from external support was more varied, with some businesses relying on specialist agents and others working in partnership with them. For those that worked in partnership, businesses generally wrote the project-based information and used resources provided from the accountant or specialist agent. By contrast, for businesses that relied on specialist agents, they gave financial and project information to specialist agents to complete the work. Participants were on occasion unsure of how the amount was calculated by the specialist agent. How specialist agents worked with businesses appeared to depend on the financial agreements that businesses had with them rather than characteristics of businesses themselves. That said, those that relied on agents generally had less knowledge and information about R&D and therefore less confidence around the process.

The outcome of claims was generally straightforward for businesses with most receiving the full amount and with little communication or clarification from HMRC. Partial claimants generally made inadvertent mistakes and worked with HMRC or an accountant or specialist agent to amend these errors, but generally on reflection saw the process as less straightforward than they had anticipated. However, the claimant that received no tax relief was concerned about potential penalties from HMRC and therefore did not contest the claim, feeling disappointed after believing that they had been claiming correctly.

In terms of future claims for R&D relief, most participants felt that they would claim again due to previous success and the ongoing nature of projects. Those that did not receive the full amount were more hesitant in this regard or anticipated taking further steps to ensure compliance, for example, spending more time on the claim or using external support. For those that were successful, they anticipated few changes with the exceptions of some anticipating differences because of the impact of Covid-19 on their business.

2. Aims and methodology

This section explores the aims and objectives that the research was seeking to address and the method taken to achieve these objectives.

2.1 Aims and objectives

Research & Development is an important driver of productivity and innovation and the R&D tax relief scheme is currently the largest single mechanism for encouraging businesses to invest in it. That said, there is some evidence to suggest that a lack of understanding, among other factors, can lead to non-compliance in claiming relief. HMRC commissioned Kantar Public to conduct qualitative research using in-depth interviews and a journey mapping approach to explore how businesses understand and claim R&D tax relief. This research aimed to provide HMRC with in-depth insight into the tax compliance behaviours of business in relation to R&D activity, considering decisions made on take-up and applying for the scheme. The study considered the key drivers of behaviour, with a focus on interactions with agents and the impact of these on business decisions and behaviours. Specifically, the research aimed to understand the following factors:

- What and who drives the R&D tax claim;
- How businesses find out about the reliefs;
- Guidance and support received, used and needed;
- Use and influence of agents;
- What compliance attitudes and behaviours companies demonstrate in making a claim?

2.2 Method

A qualitative in-depth study was conducted with 39 businesses who have claimed R&D tax relief. Interviews were undertaken by telephone and lasted for 60 minutes.

The sample was designed to include a range of businesses with varying characteristics, experiences and knowledge of claiming the relief. The sample included a mix of participants that received full, partial and nil amounts of tax relief. Only businesses who claimed in the last two years were included to aid recall in interviews. This can be found in Appendix A.

The research took a journey mapping approach to understand the process of claiming R&D tax relief in depth. This involved asking participants about the most recent claim that they made and going through the process step by step. A behavioural framework was also used in the design and analysis of the study to move beyond conscious accounts and to support understanding of behaviours. This can be found in Appendix A.

Qualitative research enables discussion about complex, sensitive and/or contentious topics. It does not aim or allow for statistical analyses. This means that the data presented in this report is neither representative nor generalisable and is not meant to be used to provide statistically significant results. Rather, the findings are a way to further understand the behaviours, attitudes and the journey of claiming R&D relief for businesses.

2.3 Report structure

This report contains three main sections:

- Views and attitudes towards tax and R&D: this section outlines how businesses perceived general tax and R&D, knowledge about the scheme and understanding of the criteria.
- The R&D claimant journey: this section follows the journey of businesses in making an R&D claim, including how they found out about the relief, the use of accountants or specialist agents in making the claim, the outcome of the claim and thinking around future claims.

- Implications for HMRC: this section considers potential opportunities for HMRC to support businesses in making claims in view of the research findings.

3. Views and attitudes towards tax and R&D

This section explores businesses attitudes and views around R&D and the general tax landscape as a UK business. Research & Development is discussed in terms of its importance for businesses and the role it plays in the work of businesses and for the UK as a whole, both in the economic benefits from growth and being perceived as a good destination for business investment. The R&D scheme is explored, discussing business views and levels of understanding of how it works.

3.1 Attitudes towards UK business tax

To understand the context that businesses operate in, interviews explored attitudes towards business taxation more generally before considering R&D relief. Reflecting the quotas set in the sample, a number of the businesses interviewed used an external accountant to manage at least some of their end of year accounts or to support them in their tax and accounting processes. Taxes around staff, for example PAYE and NI were generally run internally, but for taxes that were perceived to be more complicated, such as Corporation Tax or audits, external help was often felt to be needed. Using external sources helped to give businesses confidence that they were completing tax processes correctly as well as to save overheads in hiring another person, which was particularly important for the smallest businesses. That said, more established businesses did have those in financial positions who dealt with the tax responsibilities of the business and in these cases only used external support for processes such as audits.

When asked to consider the amount of tax that businesses pay in the UK, most businesses thought that it was generally at a fair level or considered it a necessary part of running a business in the UK and as a way to fund public services. Those in financial positions in businesses were particularly likely to see tax as part of running a business, rather than having a view about the level of tax and how fair it is to businesses.

"I think at the moment the levels are fair." Full tax relief, tax agent/accountant, 10-49 employees

"It's just there. You've got to do it, so you pay it." Full tax relief, tax agent/accountant, 10-49 employees

For smaller businesses, the amount of profit they were making also played a part in their view of the level of tax in the UK. Businesses that reported being loss making saw the level of tax as proportionate to profit as a positive measure for businesses like theirs and thought that it was right that as businesses make more they pay more. From this, they thought it helped to make the tax system not too difficult for smaller companies to navigate, but did anticipate more processes and tax obligations as the business grew and became more profitable.

"If you're making profits and paying tax that's a good problem." Full tax relief, tax agent/accountant, 10-49 employees

"For a very simple straightforward SME it's not burdensome at this stage, but I can see as we grow to the next level it will increase more and I will need more help." Full tax relief, specialist agent, 10-49 employees

A small number of businesses described the UK tax levels and administration for businesses as too high and often spoke about levels and administration together as costs to the business. There was no clear pattern as to the types or demographics of businesses that reported this. They described the work and cost required to complete tax related activities and in some cases, highlighted the issues of big businesses avoiding tax. Therefore, they felt disappointed that smaller businesses such as theirs were paying what they considered a high level of tax.

"While the government gets the money, it costs us just to process it." Full tax relief, specialist agent, 10-49 employees

3.2 The R&D relief scheme

3.2.1 The purpose of R&D relief

Overall, R&D relief was considered a very positive measure in place for businesses and, depending on how much businesses claimed, it was considered generous and beneficial. In terms of the purpose of R&D two key themes emerged in business' understanding of what the reason for the relief: as a reward, incentive or to encourage investment in R&D and to later benefit from the growth in businesses that the relief helps to enable.

Firstly, businesses saw it as a way for the government to give back to businesses that have invested in R&D activities throughout the year. Therefore, the relief was seen to encourage R&D and keep it as an activity that businesses could continue to do and also incentivised them to do it. By having the scheme in place, this reward for R&D would also encourage businesses to consider R&D activities and what they could be doing to claim the relief, keeping it front of mind rather than something that was a secondary consideration.

"A way for government to incentivise businesses to invest in R&D." Full tax relief, specialist agent, 10-49 employees

"What it means is we get a reward, a bit of a give back for doing that [Research & Development]." Full tax relief, tax agent/accountant, 10-49 employees

Secondly, participants saw it almost as an investment now so that staff could grow the business and subsequently pay more into HMRC at a later date once the investment paid off. Therefore, R&D was considered as a way to boost growth within companies. This benefit to HMRC was thought to be through paying more tax later on, as well as economic factors such as providing jobs and contributing to the UK economy.

For some smaller businesses, it was considered a financial boost to businesses to make R&D possible for those with fewer financial resources compared to larger ones. The relief became a way for businesses to continue to do R&D work at a lower risk to the business than it would have been without it, and within this it was also considered a way to level the upfront investment that businesses made into the R&D work that they do. As a result, some businesses saw the purpose of the scheme to allow businesses to do R&D that they would not have been able to do otherwise.

"It's cash today in exchange for paying more tax earlier tomorrow when profitable." Full tax relief, tax agent/accountant, 10-49 employees

"If we didn't have the scheme, we wouldn't be able to reinvest the money. We reinvest the money we get from that to allow us to continue to do our R&D." Full tax relief, no specialist agent/accountant, 1-9 employees

"It makes it very worthwhile for us to do R&D, particularly as we're only a small company. Without it we probably couldn't invest what we do in it." Full tax relief, tax agent/accountant, 50-249 employees

3.2.2 Perceptions of claiming R&D

Business' understanding of R&D was generally surface level. Even if they had been claiming R&D for a number of years, they did not report a high level of familiarity with the way that the R&D scheme works, either in terms of the process or the criteria itself. Therefore, while eligibility was easy for businesses to assess and they saw their work as clearly R&D, completing claims was not perceived as easy for participants and they lacked confidence in their responses when asked about it during the interview. In particular, the criteria of what could be included or excluded from claims was difficult to understand and created what businesses saw as grey areas within claims. As discussed in section 5, this is often what led businesses to seek external support with R&D claims.

"I'm glad it's there, it's fantastic. I have no idea how it works!" Full tax relief, tax agent/accountant, 1-9 employees

R&D compared to other tax activities

R&D relief was considered a harder and less straightforward process compared to other tax-related activities. This was because businesses reported a lack of confidence and depth of knowledge around R&D. Even for businesses which saw themselves as confident in the area of general tax, R&D was seen as a separate category with a different process of claiming compared to other activities included in the end of year or quarterly reporting.

"[Tax generally is] relatively straightforward because we're a small loss-making company. The R&D claim is obviously the most tricky thing about it." Nil tax relief, specialist agent, 10-49 employees

"I think R&D tax is the difficult one to understand of all of them." Full tax relief, specialist agent, 10-49 employees

Criteria for R&D projects

Businesses that had more experience of claiming R&D or with a financial background generally understood the overall criteria for projects that could be included. When asked, businesses were familiar with the criteria around products that have not been made before and that are overcoming uncertainty and include elements of trial and error. For some businesses, this knowledge came from their specialist agent rather from information directly from HMRC, meaning that the agent was influential in their knowledge of the scheme and understanding of the criteria.

"We really are doing research or creating or developing technology that is an advancement of the way things are..." Full tax relief, specialist agent, 1-9 employees

"It has to be genuinely different to what is out there – has to be something that we can't just go out and buy, but something that we build in-house." Full tax relief, specialist agent, 10-49 employees

However, a number of businesses saw the terminology used as difficult for businesses to interpret. This was particularly noticeable for those with less experience and reflected the general lack of confidence that businesses felt in their understanding of R&D. There were no differences for those that received the full tax relief and partial/nil claimants, suggesting that these levels of understanding were widespread. As a result, they saw the process as requiring external support due to this level of complexity.

"I don't think the language around what is determined as qualifiable is that understandable for the status quo business owners." Full tax relief, specialist agent, 10-49 employees

Criteria for R&D claims

Businesses considered what can and cannot be included within R&D projects as more complicated than which projects count as R&D. Many described nuances within claims and what could and could not be included and reported that it required specialist knowledge, whether internal or external, as a result. This was also the case for businesses that had been claiming for multiple years with success. For those that were not successful in their claim, on reflection of the process they felt that they had underestimated the complexity of what could be included in an R&D claim and had not anticipated the nuances. Differences of opinions between specialist agents also amplified the perception that R&D claims were complicated and difficult.

"It's a bit complex and I can't say after a few years of being involved in it I fully understand it." Full tax relief, specialist agent, 10-49 employees

"I don't think it's easy [to understand] ... there is a lot ambiguity and different opinions about what is allowed and what isn't allowed – from different advisors and people in the community and how people approach these things." Nil tax relief, specialist agent, 10-49 employees

Some of the uncertainties that businesses had around claims and what could or could not be included, is covered by HMRC on the website, which may suggest that businesses are not aware or have not used the resources provided. This was particularly noticeable for those that used a specialist agent and relied heavily on them to complete their claim. The following factors were described as complicated by businesses in terms of the claim:

- The use of **subcontractors or third parties** involved in the project: businesses were unsure of whether subcontractors could be included in their claim. Businesses that used subcontractors saw them as a significant cost to the business in implementing their R&D work. Therefore, they were either unsure of their status or perceived it to be unfair that they could not be included in their R&D claim.
- **Essential costs**: businesses were unsure of whether essential costs associated with the R&D project, for example software which the project relied on, could be included in the claim.
- The **calculations** made around the amount of the R&D claim: the knowledge of how to calculate the claim was difficult for businesses to understand, even for some of those with a financial background. For some partial tax relief, the calculation part of the claim was where they made a mistake on their claim and needed to correct it.

"I find the way you do the calculations difficult to understand... and I have a financial background and I'm a Chartered Accountant!" Full tax relief, tax agent/accountant, 10-49 employees

Compliance checks on R&D claims

When asked about potential compliance checks on R&D claims, a small number of businesses exhibited awareness. This came from previous experience at different companies where checks had taken place or from information provided by specialist agents or accountants. Checks were generally thought to be clarification questions or additional information needed from the business for HMRC to assess the claim. When asked about compliance checks, businesses generally assumed that they were something HMRC would do as part of the R&D relief process, and were happy for them to be conducted to ensure that relief was being fairly distributed. Overall business had little knowledge or experience of them taking place, either personally or through others in the sector.

In terms of penalties, businesses again assumed that there may be some penalties in place for incorrect claims of R&D but had little knowledge of what this would look like. This was the same for businesses regardless of size or other demographic type. One participant who did not receive tax relief for their most recent R&D claim was aware of potential penalties from a letter they received from HMRC. While this participant was happy in general for checks to take place, they also noted the need for any potential checks to be carefully framed in order not to deter businesses from investing in R&D activities.

"You would scare people into not making the claims and arguably you would stifle innovation." Nil tax relief, specialist agent, 10-49

3.3 Views on the importance of R&D

Businesses saw Research & Development as hugely important. This was consistent across business size, sector and other business demographics. They saw its importance on both an individual level for businesses and for how the UK is perceived as an investment destination, as well as contributing to a healthy economy. The dual importance of R&D for individual businesses and the UK was highlighted by businesses and impacted on the way that they perceived the tax scheme as being mutually beneficial.

3.3.1 For businesses

Businesses conducted R&D activities out of a desire to create something new and grow, as well as out of necessity due to the competitive nature of many sectors that are rapidly developing.

Creating new products or trying to improve current systems or exploring efficiencies was attractive to businesses and something that they were motivated to do. Innovation was a common way that businesses used to encapsulate R&D, both in terms of the direction of their company and the use of R&D within it. For start-up businesses, innovation was perceived to be at the core of their aim as a business and therefore R&D was described as fundamental and essential.

"We enjoy doing new and clever things..." Full tax relief, specialist agent, 1-9 employees

Alongside this, innovation was seen as necessary in order to compete with other businesses in their sector, particularly when competing against larger companies with more financial resource behind them to invest in work that is by nature trial and error, without a certain outcome. This was particularly cited by businesses in technology or IT based sectors, and these businesses discussed R&D as essential in order to keep up with a rapidly changing sector.

"If you don't move on as an industry you'll just get left behind." Full tax relief, specialist agent, 10-49 employees

"To stay ahead you need to do R&D..." Full tax relief, no specialist agent/accountant, 1-9 employees

3.3.2 For the UK

Benefits for the UK were frequently connected to the benefits for businesses, with core benefits being around innovation, the economy and furthering UK priorities.

As well as innovation being good for businesses, businesses saw it as important on a wider scale. Businesses perceived innovation to be important to the UK as any new products developed would be used by consumers or other businesses. In turn this would create efficiencies or new choices for those affected, impacting on UK productivity. It was also seen as beneficial in terms of the UK's reputation as a destination for business investment, and businesses described levels of R&D in the UK as a signal that the UK is a leader in contributing to new developments, as well as a good place for foreign direct investment.

"We've always got to and progress as a country and develop things to make life easier for everybody and to make money for the country." Full tax relief, specialist agent, 1-9 employees

"A tiny island but a big player in the world...." Full tax relief, specialist agent, 10-49 employees

Projects that businesses undertook as part of their R&D work often closely aligned to UK Government priorities and therefore could be seen as contributing to these strategies and goals. For example, projects frequently connected in some way to net zero targets or climate change, improving standards within industries, or were used by the public sector in health or care services. From this, businesses saw their work as having a wider social purpose and were proud of the impact it was having for the UK. (Kantar cannot elaborate on the details of these projects for anonymity reasons as information about specific projects would have the potential to identify which businesses have taken part in the research.)

"[We're] looking into something that benefits others and not just the company." Full tax relief, specialist agent, 1-9 employees

4. The R&D claimant journey

This section maps businesses' experiences of claiming R&D relief in the last two years, exploring how they heard about the relief, the part that specialist agents and accountants played, the process of making the claim, hearing about the outcome and thoughts around future R&D claims. It also includes case studies to give examples of how businesses claimed, to consider partial and nil claims.

4.1 Sources of information about R&D relief

Four main external sources emerged as ways that businesses found out about R&D relief. These were: accountants already working with the business on their accounts; through experience of working in sectors where R&D is commonly claimed; calls or emails from specialist agents; and through workshops or conferences.

For the most part, finding out about R&D relief was reactive rather than proactive, meaning that businesses were not looking for support but that external sources pointed them towards it. This meant that the initial source of information was influential in businesses' perceptions of R&D relief.

4.1.1 Accountants

Accountants who worked with businesses were influential in informing them about potential R&D relief that they may be eligible for. This generally happened during a review of end of year accounts or from audits. For some start-ups, this was from 'day one' when the business was set up and they were first working with the accountants. When accountants noticed or anticipated activity or projects that the business was investing in could be classified as R&D, they flagged it as a potential source of relief for the business. As a result of the end of year processes, accountants were reported as one of the most common ways that businesses heard about the relief. This was consistent across different business sizes and sectors.

"[The accountant had] done something with other companies, and they said 'hang on, you're paying a huge amount of money towards developing this'" Partial tax relief, tax agent/accountant, 1-9 employees

Businesses were generally receptive to information from their accountant and saw them as a trusted source of information for tax-related advice because of their existing relationship with the business and knowledge of tax. Therefore, when accountants mentioned R&D relief to participants, they were positive about it, seeing it as a way to save money and be rewarded for work their business was already doing.

Some accountants acted in a signposting role for businesses, informing them that specialist agents are beneficial when making R&D claims because of their expertise and experience. Particularly for businesses who had not claimed before or who were nervous about claiming, this advice from a trusted source was important and reinforced the idea of R&D as complicated and difficult to manage without external support.

"Their [the accountant's] advice was 'there are specialist companies who will help you make those claims because they better understand the process'...." Full tax relief, specialist agent, 10-49 employees

Where accountants worked as part of a larger company, businesses reported that the accountant would refer them to another part of the business for support with the claim or help them themselves. This made the process more straightforward for businesses and they reported choosing to do this because of the simplicity and the existing trust. In some instances, where businesses found out about R&D from other sources, they would refer back to their accountant and try to use them if possible because of the level of trust that they had in them and their advice or support.

"I trusted them, our accountants and that's important." Full tax relief, tax agent/accountant, 10-49 employees

4.1.2 Sectoral experience

Contacts in their sector or experience of claiming R&D relief was another common way of finding out about the relief. For companies that had claimed R&D for several years, new employees either found out about R&D for the first time when they joined the business or had experience of claiming R&D at a previous company. This was particularly applicable for those in financial roles for whom R&D claims constituted an important part of their work and therefore had built up knowledge around R&D over time. These businesses had generally heard about the relief many years previously.

Many businesses reported not discussing R&D with others in their sector, partially because of the nature of R&D projects giving businesses a competitive edge. However, in some instances businesses did network in their sector or were aware at a surface level that other businesses were claiming R&D. These sectors tended to be those such as technology or businesses with an emphasis on innovation such as start-ups. In these types of sectors, claiming R&D was perceived and communicated as a norm by their contacts as well as accountants and specialists..

"Most people I know in our sector are claiming." Full tax relief, specialist agent, 10-49 employees

4.1.3 Contact from specialist agents

While less prominent than other ways of *first* finding out about R&D relief, a small number in the sample did first hear through specialist agents. First time claimants, those in sectors where it is less common to claim R&D and those in non-financial roles appeared more likely to first hear about R&D from specialist agents. This may be because they had less sectoral and financial knowledge which meant they were less likely to hear about R&D from their own experiences. Somewhat similarly to accountants, specialist agents told participants of the financial benefits of claiming R&D but also told them about their services and what they could offer. In many instances, this included 'no win, no fee' agreements – meaning that agents would only take a percentage of any claim rather than a fee – and this was persuasive to businesses that did not know about R&D relief because they perceived little risk in claiming R&D relief with this level of support.

Although businesses did not always hear about R&D reliefs through a specialist agent in the first instance, nearly all businesses reported being contacted by specialist agents at some point. This was particularly prominent around end of year deadlines for claiming the relief and businesses noted frequent and repetitive contact from different agents. Specialist agents contacted businesses in a number of different ways, including phone calls, emails and through social media. LinkedIn was the primary social media channel mentioned by participants which is used by specialist agents to contact businesses, mainly because of the professional nature of the platform.

"I probably get emails every month." Full tax relief, specialist agent, 10-49 employees

"All of the constant LinkedIn connections, 'we're an R&D tax expert, let us help you claim R&D, you can be owed hundreds of thousands of pounds' and such." Full tax relief, specialist agent, 10-49 employees

For those that were already claiming relief and received repeated calls from specialist agents, there was often a scepticism around usefulness and comparisons were made to PPI compensation claims. This was particularly apparent for those in financial roles who completed claims on behalf of their business and therefore saw specialists as being an expensive and unneeded service for their company.

Across many businesses, including those who decided to use an agent, there was recognition that some specialists contacting companies about R&D were not reputable and potentially misinforming businesses about R&D relief. Therefore, there was generally a cautious approach from businesses

around choosing which agent to use and ensuring that they were both getting a good deal on any specialist they decided to use as well as receiving adequate support and information.

“From these rogue R&D firms – it literally happens daily – and I just think it’s such a risky game to get into for these people who really don’t understand what they’re doing.” Nil tax relief, specialist agent, 10-49

4.1.4 Webinars or conferences

Businesses also found out about R&D relief through webinars and conferences. While these tended to be general, rather than R&D specific, and therefore somewhat reactive, rather than proactive, these sources of information tended to be used by those looking to understand the business landscape in more detail. In some conferences or webinars run externally to HMRC, there were discussions and information about R&D, sometimes including information from a specialist. These events were reported to be run by banks or other business or sector conferences.

Webinars and conferences tended to be prioritised by start-ups and were generally used alongside other external sources of information, for example contact from specialist agents or accountants.

4.2 Information from HMRC

Businesses did not generally report finding out about R&D relief from HMRC. Instead, businesses first interacted with HMRC after hearing about it from accountants or sectoral experience and some went on to look for information directly from HMRC.

Those that looked for information tended to be those in financial positions, completing claims themselves and therefore needing a more detailed understanding of the guidance. Those wanting to work in partnership with accountants or specialist agents also looked for this information so that they could be reassured that they were making correct claims.

Businesses that received persistent contact from specialist agents and had positive previous experience of working with HMRC, generally wanted more communication from HMRC about R&D relief to raise awareness of the relief and the requirements around it. These participants thought that this would help to ensure accuracy in businesses’ understanding of the relief, given that currently one of the main sources of contact and information are specialist agents.

“I’d rather deal with HMRC [than specialist agents] to be honest... I’ve never had anything other than help from HMRC.” Partial tax relief, no specialist agent/accountant, 1-9 employees

That said, not all businesses did look for more information on the HMRC section of gov.uk. Those more reliant and trusting of specialist agents to complete claims on their behalf did not always complete their own research of the relief, instead trusting the specialist agents to provide this service.

4.3 Deciding to apply for R&D relief

For most businesses, the decision to apply for R&D relief was considered straightforward, with businesses describing it as an ‘easy decision’. This was the same for those that received partial and nil tax relief as for those that received the full tax relief. Three key factors were involved in the decision around applying, these were: the nature of the work; previous claims made; and external reassurance.

The nature of their work: Many businesses reported innovation as a vital or necessary part of their business model. Therefore, claiming R&D relief was an easy decision because of the financial resource that the business set aside for new projects and ideas. This was particularly prominent for businesses in rapidly changing sectors, such as technology and manufacturing. As with the importance of R&D overall, these sectors thought that without investment in innovation they would be behind their competitors and not meet changing client expectations and needs.

“Our own platform always innovates and we are always doing innovative stuff for our clients because of the industry we’re in.” Full tax relief, specialist agent, 10-49 employees

Previous claims: Where businesses had claimed over many years, the processes of claiming R&D had become built in and habitual to businesses' yearly timelines. In addition, because of the scientific and trial and error nature of projects, the length of time needed to see results from them spanned over multiple years. As a result, claiming R&D for continuing projects was common among businesses and most thought that previous successes for similar projects made the decision to claim again logical and a natural decision for the business to make.

"It's now part and parcel of our procedures." Full tax relief, tax agent/accountant, 10-49 employees

"It's a matter of routine now." Full tax relief, specialist agent, 10-49 employees

External reassurance: Following on from finding out about the relief from accountants or specialist agents, making the decision to claim was often based upon their advice and reassurance as businesses trusted their knowledge and expertise. This was particularly applicable to businesses who had not previously claimed R&D or smaller businesses with less internal resource or time to understand the eligibility criteria in detail. This, coupled with the 'no win no fee' agreements with specialist agents, made the decision to claim a 'no brainer' for businesses.

"We claimed because he [the specialist agent] said we could." Full tax relief, specialist agent, 1-9 employees

4.4 Deciding to use a specialist agent

Businesses generally had a good idea of whether or not they wanted to use an accountant or specialist agent to complete their R&D claim. These decisions were largely driven by confidence in their business' ability to complete claims without support coupled with financial considerations to the business.

For businesses that had an internal finance team with experience of claiming R&D, they perceived specialist agents to be expensive and not cost effective. This was because claiming R&D relief was an important part of their role, with resource and capacity to complete claims. Their knowledge of tax and the understanding of the scheme that they built up from previous claims also added to business confidence in their own ability to complete claims. Those that did use specialist agents also noted the cost involved.

"They're very expensive. They want anywhere between 12 and 15 percent of the claim." Full tax relief, specialist agent, 1-9 employees

For other businesses – primarily those without an internal finance team, smaller businesses or start-ups with less knowledge and confidence around claiming R&D – using a specialist agent or accountant to help complete the R&D claim was something that businesses considered in more depth. The following factors were considerations:

Capacity and ease: newly set up businesses reported finding it difficult to find capacity to complete R&D claims. This was due to having a small number of staff and the need to devote time to making the business profitable and ensuring it is set up, both generally and in other tax areas. These businesses tended to focus on the core areas of their business and were still finding out information about how to run a business, both in terms of tax and more general business processes. Therefore, while R&D relief was welcomed and important in helping to reduce the tax burden on the business, it was seen as something that would take time away from other essential areas of work. For other smaller businesses who outsourced other financial responsibilities and tasks, R&D was perceived in the same way given the lack of internal financial knowledge in-house.

"I'm so busy I hadn't looked into it before." Full tax relief, specialist agent, 10-49 employees

Perceived difficulty: the perception that completing R&D claims is difficult and requires external support impacted upon businesses' thinking around whether or not to use a specialist agent. This was a consideration for first time claimants or those with less confidence in the criteria for R&D relief in particular as they felt unable to navigate the process without support. It was compounded

by information from accountants and the knowledge that specialists are commonly used in claiming relief.

“It’s really very difficult and even a lot of accountants don’t do R&D claims, so when even the accountants say ‘it’s complicated, you need a specialist’, you listen.” Full tax relief, specialist agent, 10-49 employees

Specialist knowledge and reassurance: alongside the perception that claims are complicated and difficult, businesses with low capacity and knowledge of R&D wanted to use external support as a way to ensure that they were making correct claims and utilising specialist knowledge to ensure accuracy and compliance.

Low risk and maximum reward: for businesses that reported being unlikely to claim R&D relief without the use of a specialist agent and relied heavily on the agent to complete the claim, they perceived claiming R&D to be low risk because of the ‘no win, no fee’ agreement. Therefore, even agreements with a high percentage of the claim were seen as of overall benefit to the business. Alongside this, more experienced R&D claimants or those with more knowledge of the criteria brought in external support to ensure that they were claiming everything that they were eligible for. For these claimants, while they felt they would be able to complete it on their own if they wanted to, they decided to use an agent in order to maximise the reward and use their knowledge to decide on additional costs that may be included in the claim.

“They got us some money I won’t have otherwise bothered to get and obviously they got their 25% out of it.” Full tax relief, specialist agent, 1-9 employees

Most businesses interviewed were not aware of HMRC’s Advanced Assurance scheme, which supports first-time claimants in making an R&D claim and aims to ensure that pre-checks on the claim means the full tax relief is received. As a result, most businesses were unaware of other support options from HMRC to compare to support from specialist agents or accountants.

“It does wind me up that we have to pay someone to file it at the end” Full tax relief, tax agent/accountant, 10-49 employees

For some businesses, particularly those who had used a specialist agent for a number of years and worked in partnership with them to make the claim, there was some resentment that the perceived complexity of claiming the relief was only possible with external support. From this, many businesses would have liked to have known about the Advanced Assurance as a potential option for completing claims.

4.4.1 Choosing a specialist agent

Once a business decided they wanted to use support from a specialist agent to complete their R&D claim, there were varying levels of research completed to choose which specialist to use.

For most participants, they did not spend a lot of time researching specialist agents, instead they trusted the advice of existing contacts or used a specialist agent they had worked with before. For example as previously noted, accountants would at times have other areas of the business which specialised in R&D claims and would refer them or would let them know of other agents that claimed R&D for other clients.

A small number of businesses who decided to use an agent completed thorough checks on the potential specialist agent. This involved activities such as looking up the agent on companies’ house, reading reviews in industry magazines, or trusted sources online. Sectoral expertise was also researched and valued because of the technical expertise companies felt was needed to understand complex R&D projects. The types of businesses that completed these checks tended to be first-time claimants or those that were nervous about sharing their financial or technical information externally. They completed the research to be reassured about the legitimacy of the agents and the value and knowledge they would bring to the claim.

In contrast, some participants completed minimal research around the R&D specialist, or instead focused on the percentage of the claim rather than the credentials of the agent. Those who first

heard about R&D relief from an agent were generally more receptive to working with them because they had not previously heard about the benefits of it.

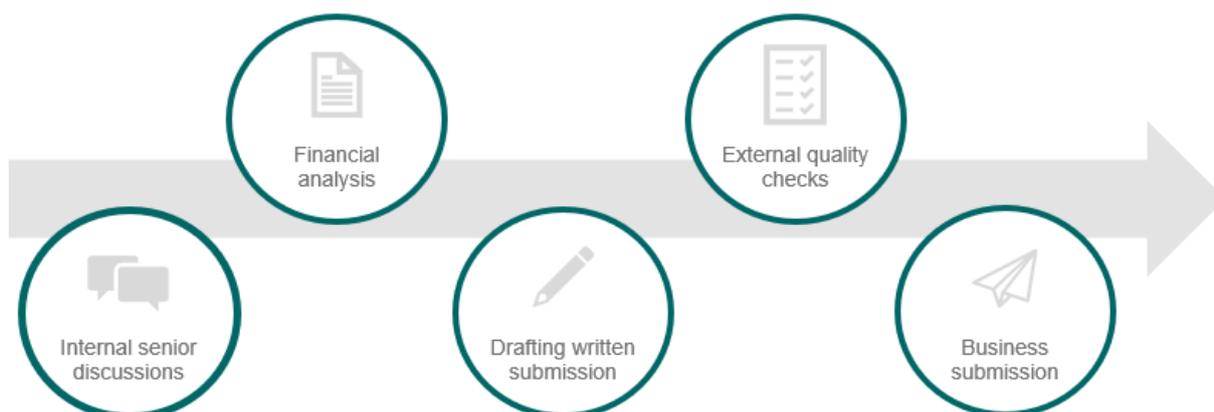
4.5 Making the R&D claim

The steps in making an R&D claim were generally reported consistently across businesses. This was regardless of the outcome of the claim with few differences between those who received the full tax relief and those who did not, with the exception of the outcome. Instead, businesses' interactions with specialist agents were the most important factor that impacted how businesses made the claim. Additionally, for those that used a specialist agent, businesses worked with them in a range of ways with varying levels of reliance.

4.5.1 Those without an agent

The following diagram represents the steps reported by businesses who decided to use internal capacity to complete claims. These businesses tended to be larger with internal resource to support this and experience of claiming R&D over a number of years, giving them familiarity with the process and opportunity to refine and improve ways of working.

Figure 4.1 an R&D claimant journey without an agent



Discussions at a senior level within businesses were generally reported as the first step in the process for claiming R&D relief. Participants reported this included those in financial positions as well as company founders or CEOs and in some instances those in technical positions. Discussions revolved around projects in the last financial year and projects that might be included in the claim, drawing on previous claims and ongoing projects where applicable and the eligibility criteria around R&D for newer ones.

Following on from this, businesses conducted **financial analyses** of projects and timesheets of staff involved in R&D. Some businesses in this group, particularly those with a financial background, organised for this to be on a monthly basis to make end of year reviewing of accounts easier. This prevented time consuming end of year work in reviewing time and spend on R&D projects, instead deciding in advance which were likely to be defined as R&D based on the criteria.

This process made the **calculating of the amount** easier for businesses. Where uncertainties arose around what could and could not be claimed, those leading the claim from the financial side would discuss this with those in senior positions, generally with some negotiation. Those in financial roles generally felt a sense of responsibility for the claim, wanting to ensure that the business was completing claims correctly and that the claim could be explained and justified if it came under scrutiny. These businesses tended to aim for accuracy in the amount that they claimed, or in some instances lowered costs, for example around certain expenses, as they thought that it would be better to claim less and receive the full amount rather than claim too much.

“It’s scrutiny I’m the chartered accountant, I’m the police person and I’m trying to apply the rules to the strictest sense that they can be.” Full tax relief, no accountant/specialist agent, 10-49 employees

The **technical reports** to accompany the R&D projects were generally written by either the person responsible for finances or a technical lead. Those in the financial teams completing this task would check details with project teams to ensure accuracy or have discussions with the teams to understand the work in more depth. When speaking to businesses, those in financial positions who would often write the technical side of the claim did have knowledge of specific projects and also had more oversight and knowledge around the claiming criteria, meaning in these instances they were the logical choice for businesses to spearhead the claim and pull together the different strands involved.

Businesses that used external accountants for end of year processes, audits or checks, generally used the same company to review their R&D claim. These were reported as usually being minor amendments and acting as a ‘second pair of eyes’ rather than being substantial changes.

Businesses themselves generally **submitted claims** rather than the accountant submitting it on their behalf. As a result, these businesses generally felt the responsibility of the claim as being on them and this was particularly apparent for participants with financial or accountancy backgrounds where R&D was a substantial part of their remit.

Advanced Assurance

While most participants had not heard of the Advanced Assurance scheme, one business had used it as a way to boost their confidence in making their first R&D claim. As a microbusiness with limited resources, they were eager to complete claims correctly and welcomed this level of support from HMRC.

That said, they did note that it was a time-consuming process and involved a lot of back and forth initially. However, the detailed step by step process meant that the next time they claimed they used their general accountant, and they were able to work in partnership with them to complete the claim because of the accumulated knowledge.

Matthew is the founder and director of a company in the technology sector, a ‘one man band’ with a handful of subcontractors. The business has claimed R&D twice, the first time through Advanced Assurance.

He finds taxes ‘complicated’ and a lot of money, especially as his business currently has losses. He uses an accountant to help overcome these issues and found out about R&D from them.

For the first claim, Matthew worked with the account and someone from HMRC to put the claim together, following the process step by step to understand how R&D worked. It was hard work, with a lot of input, but they kept going.

The second year, Matthew felt confident enough to complete the claim with their accountant through discussions and deciding what to put into the claim, with him taking the lead on the project.

Both claims have been successful, which Matthew attributes to support from HMRC.

“If [HMRC employee] hadn’t explained the way he did and helped us with Advanced Assurance we may have done the wrong thing.”

4.5.2 Those with an accountant or specialist agent

For businesses that decided to use an accountant or specialist agent, there were varying levels of agent involvement. There were those that worked in partnership with the agent to complete the claim and those that relied more heavily on the agent to complete the claim on behalf of the business. The involvement of the agents appeared to depend on their own ways of working and how they communicated their role to the businesses seeking to claim R&D.

That said, businesses working with general accountants to complete claims, but with limited internal financial knowledge and experience, generally worked in partnership with their accountant, whereas for some businesses their expectations of specialist agents were closer to reliance given the percentage of the claim and their sales pitch to businesses on their expertise. For example, one business was able to negotiate with the specialist agent that they would give a lower percentage of the claim if the business completed more of the technical reports as part of the claim.

For the partial and nil claimants, there were few differences in the R&D claimant journey compared to those working with an accountant or specialist agent who received the full amount with some working in partnership and some initially relying on the specialist agent to make the claim. For example, one partial claimant initially tried to complete the claim without external support but then brought in a specialist when they needed to respond to queries.

Figure 4.2 an R&D claimant journey working in partnership with an accountant or specialist agent



For businesses **working in partnership with an accountant or specialist agent**, accountants and specialist agents acted as facilitators, a point of contact for questions and scrutineers of the claim.

Steps in the process often mirrored those who decided not to use an agent, with an agent acting in the accountant role, particularly for smaller businesses that did not have financial resource and outsourced their accountancy work.

Initial discussions with accountants or specialist agents were around the projects to include in the claim and the eligibility criteria for R&D. For businesses with experience of claiming this was reported as a straightforward discussion because of previous projects.

Where businesses worked in partnership with accountants or specialist agents, businesses organised the financial elements of the claim. Within this, agents provided resources, for example a spreadsheet of how to calculate amounts for R&D or were available to ask questions about how to fill in and organise the accounting side of claims. For some businesses they had taken on more

ownership of this step after gaining more experience in making R&D claims with agent support, transitioning into completing this step themselves.

“Usually now we can segregate what is going to be eligible and what isn’t – back in the early days it was very much leaning on the specialist” Full tax relief, specialist agent, 10-49 employees

In terms of calculating the costs, this was generally completed by the business but the advice from the accountant or specialist agent meant that they received information and had certainty around what costs could and could not be included. This was important for businesses who wanted to maximise the reward from the claim and therefore, while they were largely confident of the criteria on an overall level, having an accountant or specialist agent as part of the claim gave them reassurance.

“I’ve always been surprised at the nuances they’ve obtained over the years – they know what’s allowable and what not – certain things if I just read the top level, I’ll think something doesn’t count but its only when you read the detail you understand” Full tax relief, specialist agent, 10-49 employees

“I’m not comfortable putting all the figures down without someone there to double check it saying this is R&D, this is definitely not R&D.” Full tax relief, tax agent/accountant, 10-49 employees

Businesses were also responsible for writing the report and the technical details of the claim. Many of these businesses preferred to do this because of the technical nature of the claim, concerned that someone external may miss some of the nuances or not portray it in the right way. In these instances, the accountant or specialist agent tended to read through the report to ensure it could be understood by someone less familiar with the project, but also taking into account the criteria for R&D.

A key role for the accountants or specialist agents working in partnerships with businesses was to complete checks and scrutiny of the claim, ensuring that the claim was reasonable and could be justified. This provided peace of mind to businesses, particularly those nervous about claiming or without the internal capacity to have a detailed oversight of the R&D rules. There was also a moral desire to claim correctly and make sure the claim was both accurate and fair to both the business and HMRC.

“The agent scrutinises and reviews and challenge it in some cases if the description is not clear.” Full tax relief, specialist agent, 10-49 employees

“It’s useful to have an independent eye on it to make sure you’re claiming correctly.” Full tax relief, specialist agent, 10-49 employee

Participants who worked in partnership with accountants or specialist agents were generally aware of the claim outcome. For partial and nil claimants, they were clear about why the feedback came from HMRC and any changes that needed to be made.

Allison launched her business in the digital sector in 2019, having worked for years before to set it up. The business employs six people and they mainly work on technology for healthcare clients.

The company secretary flagged R&D as potentially beneficial for the business having claimed it at previous companies and Allison was pleased that it was available.

Allison did not know Advanced Assurance was available so worked with the secretary to put together the claim. Allison focused on the report while the secretary focused on the figures and calculated the amount of time staff spend on R&D.

Allison had no doubts about the claim until HMRC queried it, with questions around a consultant. The business was apprehensive about the query, thinking that they had completed the claim accurately.

To overcome this, the business used a specialist agent to ensure that accuracy of what they were claiming. On reflection the process was more complex than Allison had anticipated and in future the business plans to use a specialist to ensure their claims are right.

"It was a lack of understanding of some of the technicalities. We made quite a basic error, thinking that claiming would be simpler than the reality which became clear later on."

Figure 4.3 an R&D claimant journey working with reliance on an accountant or specialist agent



Overall, businesses who were more reliant on an accountant or specialist agent to make the claim were generally more vague when speaking about the details. Specialist agents or accountants tended to make the claims on behalf of the business and businesses generally saw them as responsible for the claim as a result of their level of involvement. For example, when discussing the outcome of claims, they reported that this was not something that they would necessarily know or be aware of. Businesses who used general agents or accountants were less likely to be part of this group, perhaps because of the different agreements that specialists had with businesses.

"They do 95% of the work, we just feed them information and they sort it." Full tax relief, specialist agent, 1-9 employees

In contrast to those that worked in partnerships with accountants or specialist agents, those more reliant tended to provide the information for agents to complete the claim. This involved providing

financial information for agents to calculate the claim. In some cases, businesses were not aware of how the final figure was reached or whether the amount they received was the amount pre- or post- agent involvement. Part of this was a lack of knowledge around how claims were calculated and with participants not being in financial roles they lacked the confidence in their understanding of how R&D works.

Businesses also relied on specialist agents or accountants to write the written and technical aspects of the claim. While this involved discussions with businesses around the projects included in the R&D claim, participants perceived the claims needed to be framed and formatted in a specific way to be successful and acceptable to HMRC and therefore wanted the accountant or specialist agent to take the lead in this area to be confident in the claim.

That said, internal capacity also played a part in this and for start-ups that relied on agents they felt that they would not have had the time to complete this aspect whereas it would be an easy task for the specialist. Instead, the business checked the report written by the specialist agent or accountant.

"I don't think we would have been able to get it into the correct format for HMRC or it would have been a lot more rambling that what they condensed it down, so they [the specialist agent] were influential in making sure everything was right and the language that HMRC wanted to use and that everything was correct." Full tax relief, specialist agent, 10-49 employees

4.6 Outcome of R&D claims

4.6.1 Full tax relief

For businesses that received the full tax relief from their R&D claim, they generally reported the outcome being simple and straightforward. This was consistent across business types, including size and sector. This was in line with businesses' expectations. Because most participants had claimed R&D relief in previous years, they generally expected to be successful because these previous claims had also been successful. Additionally, for those using a specialist, this was reinforced by information from them and reported success rates from them.

"I had no reason to expect it not to be...because we'd not had any issues before following the same process." Full tax relief, specialist agent, 10-49 employees

"Our R&D guy said it's pretty crystal clear and he'd never had a claim not paid." Full tax relief, specialist agent, 10-49 employees

Businesses that found the outcome of the claim straightforward and received the full tax relief were generally pleased by the speed of response from HMRC about their claim. They reported receiving the relief within a few weeks of applying for it and most were particularly appreciative of this because of the situation with Covid-19. That said, a small number did report experiencing delays that were frustrating given their financial situation, but generally attributed this to the pandemic.

"[Our response was] Yay that was quick!" Full tax relief, tax agent/accountant, 0 employees

"my experience with anything with HMRC is it takes longer than you expect" Full tax relief, specialist agent, 10-49 employees

Communication from HMRC to businesses was described as fairly minimal. Generally, businesses did not report wanting a lot of communication and instead focused on the relief itself. Some reported not getting a receipt of HMRC receiving their claim and primarily knowing that the claim had been successful when they saw the relief in their bank account or being offset. Part of this may be due to accountants or specialist agents receiving the communication. It also could be attributed

to office closures of some businesses during the pandemic, as letter was the primary way that participants reported receiving communication from HMRC. The level of communications from HMRC meant that when businesses were asked about the service they received from HMRC in their R&D claim, some participants were unsure of how to describe it. This may add to the sense that there are few checks of R&D claims once they have been submitted.

4.6.2 Partial and nil tax relief

While the process of completing a claim saw few differences between participants based on amount of tax relief, perhaps unsurprisingly, the outcome was the point on the journey where experiences diverged. Because of previous success in claiming R&D for these businesses, most were surprised that there were questions around their claim. This was because they had following a similar approach and method to previous years and therefore expected the same outcome.

Mistakes tended to revolve around calculating the amount of R&D and the nuances of what could and could not be included, for example around the use of contractors or calculating R&D in light of corporation tax. Participants described being initially concerned when they were informed of an error by HMRC but knew that it was inadvertent and not intentional. For partial claimants, they worked to correct the error or it was dealt with by their accountant or specialist agent, and this was resolved quickly with support from HMRC. However, it did highlight the difficulties with correctly calculating R&D amounts even after some experience and/or external support.

"The person I spoke to was extremely helpful." Partial tax relief, no accountant/specialist agent, 1-9 employees

While the nil sample group was more exceptional in our sample, the below case study gives an example of their experience.

Mark has worked in start-ups for the past 5 years, he is a finance director of a small loss making company. He broadly understands the process of claiming R&D and that it encourages businesses to be innovative. Mark knows that it's very common to claim amongst start-ups because of the work they do.

This was the third claim that the business has put in and they used an external accountant to help them navigate the nuances of R&D. The business and the specialist agent worked through the projects from the previous year, marking which counted as R&D and what could be claimed. This was the same process they had gone through for previous claims.

Mark received a letter from HMRC, which he described as direct in tone, and made him feel disheartened after the effort the business went through to put in the claim. He would have wanted constructive communication about R&D given that the process is complicated and there are differences of opinion between specialists. They had trusted the accountant to put together the claim in an appropriate way.

While Mark is likely to claim again for the business because of the work they do, he says he is likely to be more hesitant next time and more likely to choose an accountant more carefully to help them with the claim.

"I do think there could be more information about how to approach these things. And maybe not just information for everyone on their website – maybe training of advisors or maybe even some regulation of advisors, because people see it as a bit of a money-pit."

4.7 Impact of R&D relief

The impact of R&D relief was varied for businesses and largely dependent on both the amount that the business successfully claimed and the proportion of the business that worked in R&D. The sector, and the extent to which smaller businesses needed to innovate and compete with larger ones, also played a part.

A number of businesses reported the R&D relief being of huge importance to their business in terms of allowing them to continue to develop and improve their service to clients. They noted that projects would likely have gone ahead without the relief but that they would have developed at a much slower pace due to being able to hire fewer people to commit to R&D work, less money to reinvest back into the business and less business growth overall.

"About 50% of our cost base is R&D so we get quite a significant uplift, so we generally get a rebate...and that supports our business to carry on doing what we're doing, otherwise we couldn't continue to develop what we develop." Full tax relief, no accountant/specialist agent, 10-49 employees

"It was business critical work...we'd have found the money from elsewhere." Full tax relief, specialist agent, 50-249 employees

For those that received fairly small amounts of R&D, the relief was perceived as a 'nice to have' but quite different proportionally to the overall investment for the business, seeing it as a small uplift for the innovation work that they had completed already.

"It gave me some money to pay some bills with, but it wasn't anything like an investment for that project." Partial tax relief, accountant/tax agent, 1-9 employees

However, the Covid-19 pandemic meant that the relief was even more important for businesses this year compared to others. Increased cash flow made a big difference to businesses and in some instances this was said to have prevented businesses from closing.

"Luckily the tax deduction allowed us to almost wipe out a single tax payment in March. If we'd had to pay that tax bill then we'd have gone under." Full tax relief, accountant/tax agent, 10-49 employees

"We were pleased with the income because we needed the cash." Full tax relief, specialist agent, 10-49 employees

"We need the money!" Full tax relief, accountant/tax agent, 0 employees

4.8 Future R&D claims

The financial benefits of R&D and its impact meant that businesses predicted being likely to claim the relief in the future. As with past claims, the decision to make future claims was based on the nature of the projects that businesses worked on in their sector and the ongoing nature of some of these projects. For many businesses, claiming R&D had become a habit and part of the business' yearly processes, meaning this was easy to consider and think about. It also meant that most did not anticipate any changes to the way that they process and produced R&D claims.

A small number of businesses wanted to be able to complete claims without support from an agent for future claims and felt that it was counterintuitive to pay someone to then receive tax relief. However, the barriers to this remain in both the confidence and capacity of small businesses. Most felt that the process was too complex for this to happen or thought that by the time the next year came round they would use an agent because it was easy for the business and what they had done before.

"The biggest bug bear is that it's a tax relief but we have to pay someone to do it. I would like it to be straightforward to file yourself." Full tax relief, accountant/tax agent, 10-49 employees

"in the first instance [you use an agent] because you don't have the knowledge and the expertise, but then when you do, [you use an agent] because you don't have the time" Full tax relief, specialist agent, 10-49 employees

Partial and nil claimants were more hesitant around whether or not they would be likely to claim the following year. Their experience of errors or not receiving tax relief the previous year made them think more carefully about the decision, and acted as a pause point for them to reconsider how they would complete any future claims. For example, some felt that they would be likely to use a specialist agent to understand the nuances of R&D relief, spend more time on the claim or that they would be more careful about which specialist agent or accountant they used.

"exercise more caution about the advisor, probably dedicate even more time to it" Nil tax relief, specialist agent, 10-49 employees

The situation with Covid-19 also changed some businesses' thinking around future R&D claims. In this way it acted as a trigger for businesses to think about potential differences in claims because of the impact that it had on the business. Therefore, for businesses affected by furlough or a slowdown in work as a result of the pandemic, they felt that this would likely prevent them from claiming R&D or mean that the amount they claim next year will likely be smaller.

"We haven't progressed as a business because of Covid and lockdown." Full tax relief, specialist agent, 10-49 employees

5. Implications for HMRC

When asking businesses about their views on what HMRC could do to support businesses to make correct R&D claims, two key factors emerged. These were: increasing awareness and simplicity of claiming so that businesses can understand and have increased knowledge around the R&D scheme; and providing resources and support to businesses to ensure that claims are made correctly. These factors at times overlapped, for example for businesses that were less aware of the guidance available from HMRC or who did not know about the Advanced Assurance scheme, they noted that similar measures would be useful to help businesses. This suggests a need for balance between support and awareness and the need to signpost to resources already available.

5.1 Increasing awareness and simplicity

Increasing awareness was a key theme raised by businesses. This was both in terms of how they found out about R&D as well as awareness of the guidance available.

Businesses that found out about R&D relief through specialist agents or did not hear about R&D from HMRC, generally felt that they could have been claiming R&D earlier and therefore had missed out on relief in previous financial years. Smaller businesses perceived awareness around R&D relief to be lower for businesses of their size. Therefore, communicating with businesses about R&D throughout the year when HMRC interacts with businesses for other tax-related activities was suggested as a way to boost awareness of R&D and also ensure that HMRC is a primary source of information for businesses looking to complete claims.

“Not enough small companies know about R&D relief.” Full tax relief, specialist agent, 10-49 employees

Increasing awareness of guidance that HMRC provides would also be beneficial for many businesses. Businesses with a financial background or that completed claims themselves noted that the guidance they looked for on the gov.uk website was a useful tool for their business in completing the claim. However, a significant number of businesses mentioned wanting resources that were already provided, suggesting more could be done to highlight these to businesses. In particular, the lack of awareness around Advanced Assurance, along with the positive perceptions from the business that used it, suggests that this could be further communicated to businesses. Given the high number of businesses with previous claims for R&D but with a lack of confidence in claiming, this also may suggest that Advanced Assurance support would be useful to a wider range of businesses than first-time claimants.

“Before you get to the point you have to have a check and potentially a penalty there’s a way you have a high degree of confidence that what you’re claiming for has already been sense checked up front... that would be really helpful” Partial tax relief, specialist agent, 1-9 employees

For businesses with a greater awareness of the current rules and guidance, increasing awareness for them meant being made aware of any changes that are made to the way that R&D works and being clear about the purpose and implications of them.

“HMRC need to communicate very clearly and promptly if there are any changes” Full tax relief, no accountant/specialist agent, 10-49 employees

Additionally, a lack of confidence among businesses in some cases linked to the language and technicalities included in the guidance. Ensuring that language is accessible to those without a background in tax or increasing understanding of the technicalities of R&D was seen as needed by businesses, particularly around what types of things can and cannot be claimed within R&D. This was thought to help reduce the differing interpretations in what can be claimed, which opens up

claims to confusion and varying advice from accountants and specialist agents. This was particularly the case for businesses that had had a discrepancy in their claim. This connects to the second key factor that businesses wanted, support and resources.

"Make it simpler for non taxy folk to understand." Full tax relief, accountant/tax agent, 1-9 employees

"It was a lack of understanding of some of the technicalities" Partial tax relief, specialist agent, 1-9 employees

5.2 Providing resources and support

Businesses reported that they would welcome support from HMRC to complete R&D claims, especially given the perceived complexity. These took different forms with some wanting a different set up for how claims are made, whereas others preferred resources and guidance from HMRC in how to complete claims.

Some of the desired support revolved around systems and how the claims process is set up, for example changing the claim set up to be alongside other end of year business processes or using an online template to complete forms. These measures were seen as particularly beneficial for those that worked with specialist agents but that wanted to be able to complete claims themselves as a business and not have to pay someone to complete claims.

"Make a template that we answer online that would cut out all the agents that are making all the money on the side." Full tax relief, specialist agent, 1-9 employees

However, for those that had become more familiar with the ways of completing R&D over time and did not use an agent, other resources were seen as more valuable and worthwhile to help businesses claim. Businesses had a range of ideas for what resources and support could be provided by HMRC, and the type of support generally depended somewhat on the level of engagement with accountants or specialist agents, with some wanting support to become less reliant on them. For partial claimants, support generally focused on previous mistakes made and areas they felt were more complex.

However, most suggested ways for HMRC to support businesses to make correct claims linked to being a point of contact for businesses or giving examples and learnings for how to complete claims correctly and avoid errors. The below outlines resources and guidance that businesses would appreciate:

- A calculator for how to approach R&D was perceived as useful and the participant who mentioned it was a participant who received a partial tax relief who had received it from HMRC when they were found to have made a mistake in their calculations. Given the widespread level of complexity, this could be something provided by HMRC as a resource for businesses and as a way to give businesses confidence in their calculations, reducing the sense of confusion.

"The calculator I've got would be useful for anyone [someone from HMRC] gave it to me, it would be really useful if it was on the website." Partial tax relief, no accountant/specialist agent, 1-9 employees

- As well as information in the form of examples and case studies, training was perceived as useful to businesses as a way to guide people through the process, myth bust around misconceptions of R&D and a way to open a dialogue with businesses who tend to have a low level of interaction with HMRC about their R&D claim.

"I do think there could be more information about how to approach these things. And maybe not just information for everyone on their website – maybe training of advisors." Nil tax relief, specialist agent, 1-49 employees

"I do believe if HMRC could actually provide more case study examples I think for me that would mean that we start to claim from the information rather than relying on third party R&D specialists to do this." Full tax relief, tax agent/accountant, 50-249 employees

- Support around specialist agents was also reported for businesses who felt that they could not complete the claim without some level of support. However, businesses noted that there were many in this sector that may not be reputable. Therefore, they felt that if HMRC could highlight specialist agents that were completing claims in the correct way or showcase agents abiding by best practice, this would alleviate concerns and improve compliance.

Appendix A – Sample and method

Sample frame for interviews

Face to face interviews with businesses was originally considered, however due to the coronavirus pandemic, interviews were conducted by telephone and conducted later in the year – from November 2020 to February 2021 – to be sensitive to business needs and allow time for companies to adjust.

To capture a broad mix of businesses with varying experiences and knowledge of claiming the relief, the sample aimed to include a mix of characteristics (see below).

The sample intended to focus largely on those who received partial and nil tax relief as far as the sample allowed to capture experiences of difficulties in the claiming the relief or non-compliance in claiming. However, this was adjusted to reflect the make-up of the sample.

	TOTAL
TOTAL	
Business who have successfully or attempted to claim R&D relief	39
QUOTAS	
TAX RELIEF AMOUNT	
Received full amount	33
Partial amount/Discrepancy	5
Unsuccessful	1
TAX RELIEF ATTEMPTS	
Once	6
More than once	33
AGENT TYPE	
A tax agent	15
A specialist R&D agent	19
No Agent	5
RELIEF TYPE CLAIMED	
R&D Tax Relief	33
Both	1
R&D expenditure credit	4
DK	1
TAX RELIEF VALUE	
Under 10K	9
10K-100K	19
Over 100K	11
BUSINESS SIZE	
Sole Traders (0 Employees)	1
Micro Business (1-9 employees)	15
Small Business (10-49 employees)	17
Medium Business (50-249 employees)	5
Large Business (250+ employees)	1

SECTOR	
Agriculture, forestry and fishing	0
Mining and quarrying	0
Manufacturing	9
Utilities waste management and remediation activities	0
Construction	3
Wholesale and retail trade; repair of motor vehicles and motor cycles	0
Accommodation and food service activities	0
Transport and storage Information and communication	0
Financial and insurance activities	1
Real estates/Professional/scientific/ technical/ Administrative and support service	16
Public administration and defence; compulsory social security	0
Education	1
Human health and social work activities	1
Arts, entertainment and recreation Other service activities	4
Activities of households as employers	0
Activities of extraterritorial organisations and bodies	0
Other	4
LOCATION	
Greater London	6
South East	7
South West	8
West Midlands	4
North West	3
North East	0
Yorkshire and the Humber	5
East Midlands	2
East of England	3
Scotland	1
Wales	0
Northern Ireland	0
Channel Islands/ Isle of Man	0
OPERATING YEARS	
Less than 5 years	12
Between 5 and 10 years	15
Between 10 and 20 years	0
More than 20 years	10

Journey mapping

As part of the interviews, journey mapping was used to understand the process of claiming R&D tax relief in depth. This involved asking participants about the most recent claim that they made and going through the process step by step. In this context, this included:

- How they first heard about R&D relief;
- How they made the decision to claim;
- The process of making the claim;
- Deciding on the amount to claim;
- The outcome of the claim;
- Thoughts and feelings around future likelihood to claim.

For each of these areas, businesses were asked for sources of information, who was involved at each stage as well as facilitators and barriers where applicable. From this, Kantar were able to understand in depth the journey that businesses went on to claim as well as the attitudes and behaviours at each stage. These journeys were then analysed and compared across the interviews to find key themes and similarities for businesses as well as different types of participants, for example different journeys between those who decided to use a specialist agent to make their claim versus those who decided to complete the claim without external support.

Behavioural framework

The Kantar behavioural framework has been used in the analytical process to identify attitudes and behaviours along business' journey of claiming R&D. Types of behaviour fall broadly into two categories of 'automatic' and 'reflective' to show the difference between behaviour which stakeholders do without thinking or are outside of their control (automatic) and those which they are conscious of and make decisions based on (reflective) – meaning that we account for conscious and unconscious behaviour in our analyses. For automatic response, this was explored within the interviews by asking about top of mind associations and noting where businesses discussed barriers which they considered to be a unconscious association or a 'knee jerk' reaction, for example continuing to claim R&D relief because of previous experience of doing so. On the other hand, reflective associations would be those that businesses are conscious of; e.g. not feeling able to complete claims without support from a specialist agent because of perceived lack of knowledge around the criteria.

The behavioural framework facilitates considerations of eight behavioural domains:

- *Context/setting*: how behaviour might be impacted by an environment or physical barriers
- *Heuristics*: top of mind associations or mental shortcuts made when thinking about R&D relief
- *Habit*: behaviour as part of an existing routine
- *Morality*: considerations of right or wrong
- *Norms*: how behaviour is viewed within a group or community
- *Cost/benefit*: weighing up whether the potential benefits of the behaviour is worth the risk
- *Efficacy*: how able people feel to enact a behaviour
- *Legitimacy*: is the policy seen as credible or actionable

Figure A: Kantar Behavioural Framework



The framework has also been used to form ideas for changes or interventions to overcome emerging barriers; e.g. design (setting the physical context or changing situational cues), control (legislating, regulating or enforcing), educate (informing, advising, building awareness), and persuade (engaging, motivating, putting the issue on the agenda). It indicates the most effective methods for leveraging or addressing different kinds of influence, so as to achieve behaviour change.