

## Budget 2018

### Preventing abuse of the R&D tax relief for SMEs

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- To help prevent abuse of the research and development (R&D) SME tax relief by artificial corporate structures, the amount that a loss-making company can receive in R&D tax credits will be capped at three times its total Pay As You Earn (PAYE) and National Insurance contributions (NICs) liability.
  - HMRC has identified and prevented £300 million of fraud linked to this relief and this change will help to address similar abuses in future.
1. The R&D tax reliefs, including the SME relief, are designed to encourage innovation. Their success is shown by a recent HMRC study which found that for every £1 of tax forgone £1.53 to £2.35 of R&D is stimulated.
  2. £1.8 billion of support has been claimed so far for 2016-17, up from £350 million in 2010. This supports the government's aim of seeing UK spending on R&D reach 2.4% of GDP by 2027.

#### Why is a change needed?

3. While R&D tax reliefs are effective, HMRC has identified (and prevented) fraud attempts on the SME payable tax credit, worth £300 million in total. In these cases, companies were set up to claim the cash available through the payable credit even though they have no legitimate R&D activity. HMRC also identified structures set up deliberately to claim the payable tax credit despite having no or little employment or activity in the UK.
4. From April 2020, the amount of payable credit that a qualifying loss-making business can receive through the relief in any one year will be capped. The cap will be three times the company's total PAYE and NICs liability for that year.
5. This will deter abuse because fraudulent companies typically do not employ many people or pay PAYE and NICs. The cap will therefore ensure that the relief goes to companies that have a real UK presence.
6. Close to 95% of companies currently claiming the payable credit will be unaffected.
7. Nevertheless, the government recognises that some genuine companies with UK R&D activity may have low PAYE and NICs liability relative to R&D spend and therefore could be affected by this measure, despite the cap being set at three times their liability.
8. In these cases, the companies will still be able to claim payable credit up to the cap with any unused losses carried forward to be set against future profits. The government will also consult on how the cap will be applied, to minimise any impact on genuine UK businesses.