

Corporate

# Improving access to R&D tax credits for small businesses

Response to Consultations  
*(published 16 January 2015)*

## **Introduction**

1. The Institute of Financial Accountants (IFA) and the Federation of Tax Advisers (FTA) welcome the opportunity to comment on the consultation documents in respect of the open consultation on improving access to R&D tax credits for small businesses published by HM Revenue and Customs on 16 January 2015.
2. We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.
3. Information about the IFA and the FTA is given below.

## **Who we are**

4. The IFA is an internationally recognised professional accountancy membership body whose members work for small and medium-sized enterprises (SMEs) or who run or work in small and medium-sized accounting practices (SMPs) that advise SMEs.
5. Following the amalgamation of the IFA with the Institute of Public Accountants (IPA) of Australia on 1 January 2015, the IFA is now part of the IP Group. It is the world's largest SME/SMP focused accountancy group, with more than 35,000 members and students around the world, which will take the global lead on accountancy, tax and business matters for micro, small and medium-sized enterprises.
6. At the IFA, we put small and medium enterprises (SMEs) first, recognizing their role as vital wealth-creators, as employers to more than half of the UK's private sector workforce and as the power behind vibrant urban and rural communities. We hold the interests of small and medium practices (SMPs) in the accounting profession in equal regard.
7. The FTA is the Tax Faculty of the IFA and is the modern membership body for agents who provide tax compliance and planning expertise to SMEs and entrepreneurs. It is the tax representative for IFA and FTA members.
8. We are proud of our unique relationship with our members, who predominantly come from a SME/SMP background. As a professional accountancy body, we aim to provide the very best support and guidance to our members who operate within this arena, frequently tailoring policies and recommendations to meet the unique challenges and trading relationships associated with smaller business.
9. Founded in 1916, the IFA supports over 10,000 members and students in more than 80 countries with a programme of professional qualifications and education. As well as resources, events, training and seminars. IFA members uphold high standards of conduct, confidentiality and ethics and undertake annual continuing professional development (CPD) activities.
10. The IFA is a full member of the International Federation of Accountants (IFAC), the global body for the accountancy profession. As such, the IFA takes its place alongside the UK and Ireland's six chartered accountancy bodies, as well as 135 national and regional accountancy organisations representing 125 countries and jurisdictions.
11. The IFA is formally recognised as an awarding organisation by Ofqual, the public body responsible for monitoring standards, exams and qualifications (other than degrees) in England, underlining the quality of the IFA's work and the integrity of its qualifications; and is authorised by HM Treasury for Anti Money Laundering supervision.

## **General Comments**

12. Thank you for the opportunity to respond to the consultation on improving access to R&D tax credits for small businesses published 16 January 2015.
13. We support HMRC's initiative to simplify R&D tax credits to enable more companies to access them. Our comments on how we believe this can be best achieved are set out below.

## **Engaging with businesses**

14. In our experience most small companies become aware of the existence of R&D tax credits from their accountants, tax advisers or through their network of contacts within the industry. They are unlikely to contact HMRC unless they are already aware of the regime.
15. Instead of HMRC directly engaging with businesses, we believe it would be more effective for HMRC to promote R&D tax credits through the BIS, industry bodies and local chambers of commerce. These parties already have strong links with their industry groups and could use existing channels to communicate and promote R&D tax reliefs.
16. This would also free up HMRC resources to engage with businesses with queries relating to their first claim, providing advance assurance and visiting companies where appropriate.
17. HMRC could also set up and clearly advertise a dedicated R&D tax credit helpline for companies and their advisers as this will ensure that queries are dealt with quickly and that HMRC are seen to be approachable.

## **Definition of R&D**

18. The definition of R&D is widely understood and we do not believe that a wholesale change is required. In addition, we do not support the proposal to introduce a new scheme with a different definition of R&D for the smallest companies as this will complicate the system and confuse potential claimants. It will also create difficulties when companies grow and have to start applying a different definition and capture different expenditure.
19. However, we would encourage HMRC to remove some of the anomalies within the heads of qualifying expenditure. In particular, companies should be allowed to claim R&D tax credits for all employee costs including benefits provided to staff engaged in the R&D and travel and subsistence and other expenses incurred by the relevant employees and reimbursed the company.

## **Number of R&D tax credit schemes**

20. As set out above, we do not see the need for a third scheme for the smallest of companies as this will unnecessarily complicate the R&D regime.
21. However, the rules relating to linked enterprises and partner enterprises are very technical and difficult to apply. Consequently we would recommend that whether a company is 'small' or 'large' for R&D tax purposes is determined by reference to the accounts of the consolidated group where these have been drawn up under applicable accounting standards.

## **HMRC guidance**

22. We do not believe it is the best use of HMRC time to produce new guidance on R&D tax credits or to make major changes to the CIR manual as HMRC manuals and guidance are largely used by accountants and tax advisers and not by the companies themselves. However, HMRC could input into industry roadshows or industry publications where requested.

### **Advance assurance service**

23. The proposed advance assurance service is most suited to companies making a claim under the small company's regime. It should be open to any company that is 'small' on a voluntary basis.
24. Advance assurance requests should be made through submitting an on-line application form covering the activities for which R&D relief is going to be claimed and the basis that the company will calculate qualifying expenditure.
25. It should be valid for claims made within six months of the date of approval being given as this allows the company sufficient time to capture costs, make the claim and implement any necessary processes. It is also consistent with the time period for which other HMRC approvals are valid.

Should you wish to discuss our responses further, please contact [AdamL@ifa.org.uk](mailto:AdamL@ifa.org.uk) in the first instance.