

Unveiling the impact:

How are businesses navigating the evolving landscape of R&D tax relief and innovation incentives?

In recent years, changes to **Research and Development (R&D) tax relief incentives** have sparked considerable discussion among businesses and policymakers alike. These incentives are crucial for **fostering innovation, driving economic growth, and maintaining competitive advantage.**

The introduction of a **merged scheme** with new rules, more onerous requirements for businesses when **preparing a claim**, and HMRC's **heightened compliance** focus have created challenges for many businesses accessing the relief.

To understand its **real-world impact** and how businesses have adapted to changes, ForrestBrown, in collaboration with Winmark, surveyed **39 senior finance and tax professionals from Winmark's Tax Director Network.**

Our research aims to capture the **perspectives of businesses** on how the changes to **R&D tax reliefs** have influenced their **investment decisions, innovation strategies, and risk appetite.** We hope to provide valuable insights into the effectiveness of these policy changes and offer **recommendations for businesses to effectively navigate the tumultuous landscape.**



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Sara Brigden
Managing Director

Survey snapshot

39



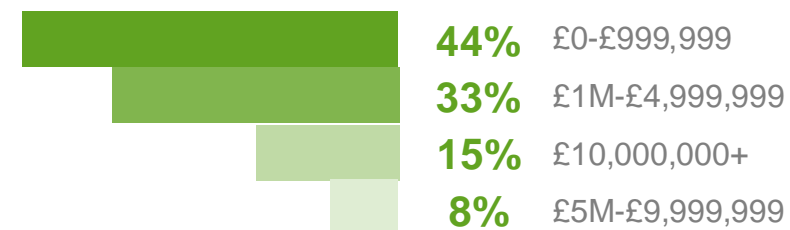
Senior finance and tax professionals

Key industries

Technology E-commerce
Life sciences Manufacturing
Finance Insurance Healthcare
Retail IT/Software Real estate
Automotive Construction Energy

44%

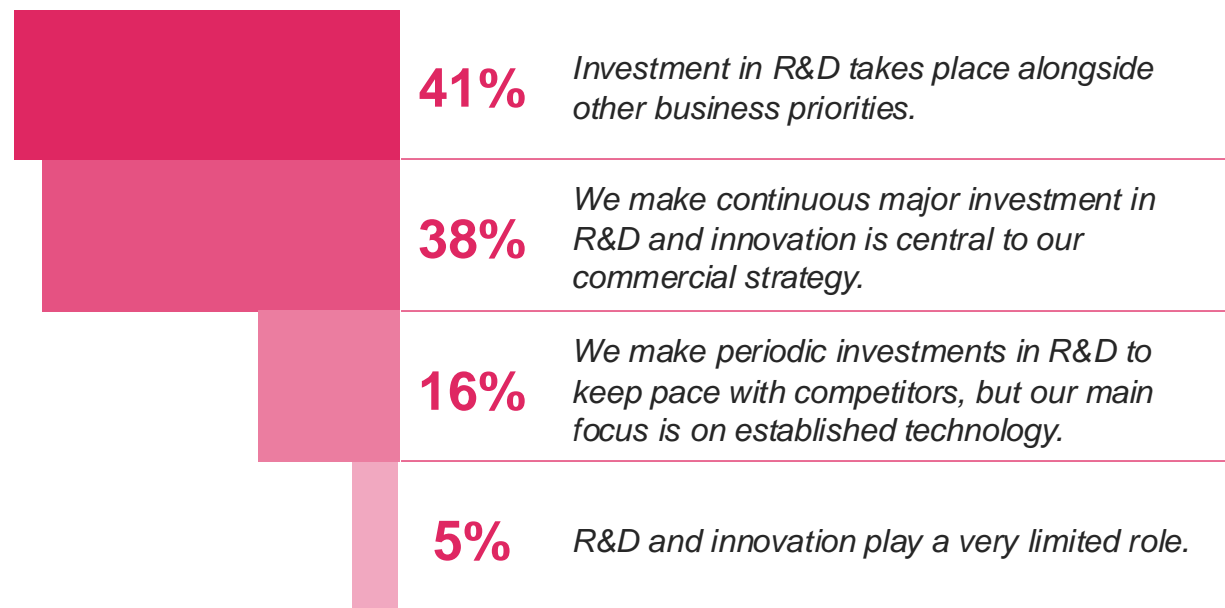
Received up to **£1 million** in R&D tax relief in the past 12 months



R&D investment and innovation is key to organisational success. Its positive effects pervade across the entire business.

Senior tax respondents view R&D investment as equal to other business priorities, or central to their commercial strategy.

Notably, **38%** perceive that their business makes “**continuous major investments in R&D**”, with this sentiment being stronger amongst technology, healthcare, life sciences, manufacturing, and IT/Software respondents.



Survey respondents n=39, when asked “What role does R&D and innovation play in your organisation?”

Respondents also consider **knowledge spillover** and **enhanced reputation** as wider benefits of investing in R&D and innovation, beyond the direct impact of developing new products and processes.

01



Contributes to our wider knowledge base / expertise

02



Enhances our reputation with stakeholders

03



Fosters an organisational culture of continuous learning

04



Greater ability to attract and retain skilled staff

05

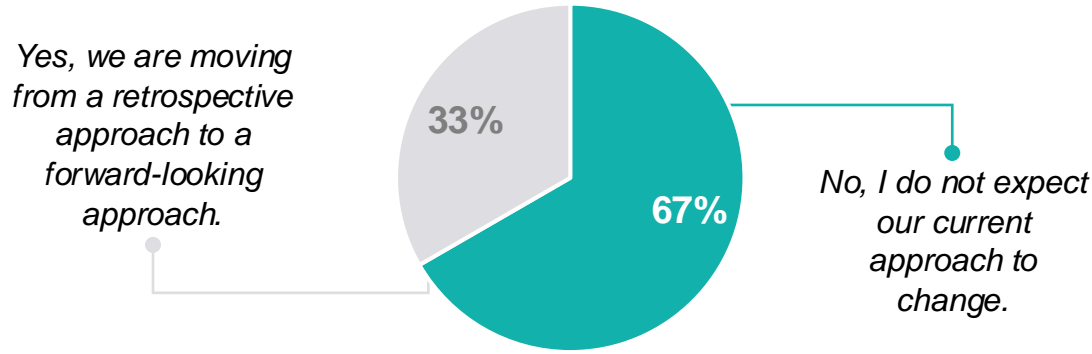


Makes the business more attractive to investors

In order of priority 1= highest priority to 5 = lowest priority, survey respondents n=39, when asked “Beyond the direct impact of developing new products and processes, what do you consider to be the wider benefits of your organisation investing in innovation? Please rank in order of priority, with 1 being the highest priority.”

81% of senior tax professionals report that their organisation does not have an agreed methodology in place with HMRC for claiming R&D tax relief under the new changes...

...and many do not expect their overall approach to change in the next 2-3 years





Survey respondents n=39, when asked "Do you anticipate any change to your organisation's approach to R&D tax relief and innovation incentives within the next 2-3 financial years?"


“ R&D is **slightly unusual** in its reliance on **subjective assessments** to quantify the value of relief, often requiring different approaches to reflect the architecture of a given business. This **lack of uniformity** can carry risk, which mechanisms such as a **clear methodology** and **active engagement** with HMRC can serve to mitigate. ”

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- ▶ **Over half** of respondents surveyed have a retrospective approach to claiming tax relief.
- ▶ Fewer than **one in five** have embedded systems and processes that enable all R&D activity to be captured in real time.

61%  We examine the work we have done in past periods and claim R&D tax relief for that activity.

25%  Some R&D projects are captured in real time and others are identified in retrospect.

14%  We have embedded systems and processes that enable us to capture R&D activity as it is identified, minimising the retrospective compliance work required.

Survey respondents n=39, when asked "Which of the following statements best describes your organisation's approach to R&D tax relief and other innovation incentives?"

Few respondents consider the impact of the changes having a positive benefit to their organisation. Rather, the **consequences** felt over the past 12 months were generally “neutral” or “negative”.

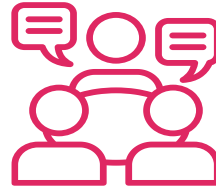
59% of respondents perceived an “increased risk” in relation to the change and acknowledge that it **directly increases** their use of **external advisers** and **in-house resources**.

“The **scale of change** to the R&D tax relief landscape in recent years has been significant. Against this backdrop, it’s understandable that businesses perceive **increased risk**. However, it’s important not to lose sight of the **transformative power** of the incentive and the role it can play in the **national mission** to restore economic growth.”

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37%

Additional complexity has increased our use of external advisers.



33%

Making a claim has required more in-house time and resources.

16%

We have reviewed commercial arrangements with our supply chain to better understand who can claim under new contracting rules.

Survey respondents n=39, percentage shows the proportion of respondents that agreed with each individual statement, when asked “Which of the following statements do you agree with based on your company’s experience of R&D tax relief in the past 12 months?”

Respondents freely shared their frustration towards R&D Tax relief processes

“The UK R&D definitions remain **poorly suited** to innovation in the tech sector (compared to other countries) and the process, **largely retrospective**, makes any credit a **windfall** rather than **genuinely incentivising** incremental investment in innovation in the UK.”

- Group / Division Head of Tax, Life Sciences

“HMRC’s **blanket audit approach** to R&D claims has not helped.”

- Head of Tax, IT

“It takes a **significant amount** of internal resources, and I am a little worried about the level of **scrutiny** that will come with even a small claim.”

- Senior Tax Manager, Retail

Considerations for senior tax professionals

The impact of changes to R&D tax relief will be different depending on a business's size, sector and supply chain relationships. However, three themes are consistent for all and should be front of mind for senior tax professionals when considering their approach to the incentive.

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For further details, please get in touch:

hello@forrestbrown.co.uk

0117 9269022

forrestbrown.co.uk



Visibility

Wherever a business sits in the **supply chain** relationship, it's important to understand **where R&D is taking place** and who is in a position to claim for it. **New rules** on contracting out can have a **material impact** on claim value. Knowing where you stand in **advance** is vital to **investment planning**.



Protection

In an **increasingly complex** world, companies shouldn't be discouraged from claiming R&D tax relief but it's **prudent to protect** themselves from **risk**. Understanding where risk lies and the **values involved** is key.



Integration

Innovation incentives can be made to **work harder**. An **integrated strategy** across the spectrum of innovation incentives available helps businesses **access funding** at the right time, with the potential benefit of **cashflow** outside the tax return cycle.