

# Research and Development Tax Credits

## Final Report

December 2005

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HM Revenue and Customs

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**BMRB/AT/RR/45103640**

**Her Majesty's Revenue and Customs Research Report 12**

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## Summary

Research and Development (R&D) tax credits were introduced for companies that are small and medium enterprises (SMEs) in April 2000 and extended to large companies in April 2002. R&D tax credits aim to raise business R&D and so promote innovation and productivity in the UK.

In this survey 968 interviews were completed with companies that conduct research and development (R&D). Nearly nine in ten companies interviewed are in one of two main industry sectors, either manufacturing or business activities. Most of the respondents interviewed were senior personnel such as Finance Directors, Managing Directors, or other senior management or finance personnel.

Levels of spending on R&D were similar between the two main industry groups (manufacturing and business activities), however, those in the manufacturing industry spent less on R&D on average in proportion to their size. Manufacturing companies tended to be larger (measured by both turnover and number of staff) than those in business activities but the latter more commonly had R&D as their main activity. Around one in five companies overall (18 per cent) said R&D was their main activity compared with over a third (37 per cent) of business activity companies.

A high proportion (82 per cent) of respondents said they had been aware of R&D tax credits prior to the survey. Nearly half (44 per cent) of those who were aware of R&D tax credits first heard about them through an external accountant or auditor. 28 per cent first found out about them from the press generally and 9 per cent via an HMRC source directly.

Of those who were aware of R&D tax credits prior to the survey, seven in ten (69 per cent) had sought advice or information about R&D tax credits. Those who had sought advice about R&D tax credits were far more likely to have consulted a source other than HMRC itself (63 per cent compared with 24 per cent who consulted HMRC). Overall two-thirds (68 per cent) of claimants consulted an external business advisor such as a consultant or accountant. Companies were most likely to seek advice about the definitions of what types of R&D qualify for tax credits and what counts as eligible costs.

Nearly two thirds (64 per cent) of companies interviewed said they had a good or very good understanding of the scheme. Companies' understanding of (and indeed likelihood of claiming) R&D tax credits did not vary greatly by company size, with the exception of companies with fewer than 10 employees who were less likely to have a good understanding or have claimed. Amongst companies that had claimed tax credits, understanding of the scheme was higher for those with higher levels of R&D spend.

Seven out of ten respondents (71 per cent) who were aware of R&D tax credits and thought their company was eligible for support said they had made a claim. Overall, 43 per cent of all respondents said that their company had made a claim for R&D tax credits. However, 18 per cent of respondents had not considered claiming as they were unaware of the tax credits, and a further 21 per cent felt that their company would be ineligible for relief (due to the type or amount of R&D they do) or would not benefit from it (as they worked for a large company making losses). 18 per cent were aware of the credits and possibly eligible for relief but had not yet made a claim.

Most companies had been successful in claiming R&D tax credit with 86 per cent of companies that had claimed saying that at least one of their claims had been approved by HMRC. Most (81 per cent) successful claimants received the full amount of their most recent claim and 9 per cent received less because either some of the R&D itself or expenses were ineligible. Around three quarters of claimants found the claims process very or fairly easy.

A fifth (20 per cent) of claimants said their most recent claim had been subject to an enquiry, with companies making their first claim more likely to face an enquiry than those making subsequent claims. In total, 34 per cent of claimants had been subject to an enquiry at some point. In 39 per cent of cases, the respondent said the enquiry had had no impact on the claim. In a third (34 per cent) of cases the claim was amended (usually reduced) and in 3 per cent of cases the claim had been refused. (20 per cent were still awaiting the outcome of the enquiry). Most (54 per cent) respondents where the enquiry was complete said it would have no effect on them making further claims, with 29 per cent saying it would help them to do so. 15 per cent thought the enquiry would deter them from claiming in future.

Of companies which had not claimed but were aware of R&D tax credits, over half (55 per cent) did not think that they would be eligible for relief or that they would not be able to access value from the relief. A third (33 per cent) felt that the benefit of the tax credit would not justify the effort of applying. However, most (60 per cent) non-claimants who were aware of the tax credits felt that it was likely that they would make a claim in the next five years. Seven in ten (72 per cent) of non-claimants who were not aware of R&D tax credits said they were very or fairly likely to investigate further.

Most respondents had a positive view of the potential effects of R&D tax credits. Overall, 57 per cent of claimants and 58 per cent of non-claimants felt that R&D tax credits were an incentive to undertake further R&D.

Many companies, particularly SMEs, said the tax credits had already had an impact. Half of those with a successful claim said that R&D tax credits had had some impact on either their R&D spend or R&D projects. One in five (19 per cent) said they took the expected value of tax credits into account when setting their R&D budget. Significant proportions also said that the R&D tax credit had had some impact on the type of R&D projects they undertook.

- Over a third (34 per cent) said that R&D tax credits had enabled them to take on projects that needed a longer time to pay off.
- A quarter (24 per cent) said that tax credits had enabled them to take on more risky R&D projects.
- One in seven claimants (16 per cent) felt that the R&D tax credit had either enabled them to attract R&D projects from abroad or prevented R&D projects from migrating to overseas facilities.

# 1 Introduction

## 1.1 Background to the research

In April 2000, the Government introduced the Research & Development (R&D) Tax Credit scheme. The main objective of the scheme was to promote investment in R&D and hence encourage innovation and productivity growth.

Initially, the scheme was available only to small or medium sized companies (SMEs), but in April 2002, an additional scheme was launched covering all other companies. This expansion has since been referred to as 'the large company scheme', and this scheme differs from that available for SMEs.

R&D tax credits are only available to limited companies. All companies spending over £10,000 per annum on R&D (as defined for tax purposes) are entitled to a deduction from their taxable profits worth 150 per cent of qualifying expenditure for SMEs or 125 per cent of qualifying expenditure for larger companies reducing the company's corporation tax bill accordingly. SMEs not in profit can get a cash payment of up to 24p per £1 of qualifying expenditure instead of a deduction from taxable profits. (This cash payment is not available under the large company scheme).

The definition of R&D for tax purposes is restricted to projects within scientific or technological fields. This discounts routine product development but includes incremental improvements to technology as well as companies that devote their energies to cutting-edge technology, or are seeking to invent entirely new products.

The definition of qualifying costs states that only the costs borne as a direct result of R&D can qualify for tax credits. Expenditure on staffing, materials used in the R&D process, computer software, fuel, water, power, the cost of employing external employees and any sub-contracted R&D are all valid, whilst the cost of buildings, machinery and other capital expenditure do not qualify under the scheme. There is a separate 100 per cent capital allowance for R&D.

In all, since the April 2000 launch, more than 16,000 claims have been made under the SME scheme for total support of around £850 million. Since the launch of the large company scheme in April 2002, over 2,000 claims have been made for total support of around £500 million. In total, R&D expenditure of nearly £12 billion has been supported under the two schemes to date.

As part of the Government's wider, long-term evaluation programme for R&D tax credits, HMRC wanted to ascertain the attitudes of companies that have applied for and benefited from the scheme. At the same time, HMRC also wished to hear from companies that may be entitled to participate in the scheme but have yet to do so. HMRC also wanted, if possible, to investigate any early impact that the policy is having on R&D, although the full impact is only likely to be felt over the longer term.

## 1.2 The survey

BMRB interviewed respondents who worked for companies that were registered for Corporation Tax and which carried out R&D (whether or not this was eligible for the R&D tax credit).

A sample of 2,598 companies was selected from the ONS Business Enterprise Research and Development (BERD) sample of 2003. ONS identifies businesses that conduct R&D from the Inter-Departmental Business Register (IDBR) and by means of a filter question on the Annual Business Inquiry Survey. These businesses are then used as the sample for the BERD inquiry, which consists of around 12,000 businesses. Not all of these businesses will be eligible for R&D tax credits, as some are not registered for Corporation Tax, and some may not be conducting eligible R&D or are spending less than the £10,000 threshold for claiming. Further details of the sampling procedure are provided in the Technical Appendix.

Selected companies were sent letters in advance of the survey, including a fact sheet that explained what R&D tax credits were and a note of the types of questions that BMRB would be asking.

Interviews were conducted by phone between 23 June and 22 August 2005, and 968 full interviews were achieved, which represents a response rate of 51 per cent of all eligible, contactable companies.

Further details of the methodology are provided in the Technical Appendices of this report, including copies of the questionnaire and other materials used.

### **1.3 Notes on the report**

In this report the term R&D refers to Research and Development.

The figures presented in this report are all unweighted, as there was no population profile data that could be used for weighting. Therefore the results should be regarded as indicative of take up of R&D tax credits and the views of companies that do R&D.

Companies spending less than £125,000 on R&D have been compared to companies spending more than this on R&D. This split has been used as it divides the sample roughly in two. There is no other technical or tax credit related reason for this split. In some tables, companies spending less than £10,000 on R&D are shown. This figure is the cut off for R&D tax credit claims – companies spending less than £10,000 on eligible costs of R&D are not entitled to claim the R&D tax credit.

The percentages in the tables do not always add to 100 per cent due to rounding, and, where percentages in the text differ to the sum of percentages in the tables, this too will be due to rounding.

Where tables show data from a question where more than one answer could be given, the percentages in the table can add to more than 100.

Where bases are less than 50, frequencies are quoted in tables, rather than percentages.

A \* in a table signifies a value between 0 and 0.49, while a – signifies a zero.

Means have been calculated as the arithmetic average of the data (i.e. the sum of terms divided by the number of terms in the distribution).

The median is a 50:50 point in a set of readings ordered by size.

Where respondents have said 'don't know' in response to a question, such responses have been included in the total responses when calculating the percentage of respondents giving particular responses.

## 2 Profile of companies

This section looks at the respondents we interviewed and the types of company that they work for.

### Summary

The respondents interviewed were senior personnel, many of whom were financial specialists.

The companies varied greatly in size (as measured by turnover and number of employees). Some companies were relatively small (5 per cent had an annual turnover of less than £100,000, and 19 per cent employed fewer than 10 people), while others were extremely large (10 per cent reported an annual turnover of over £100 million and 8 per cent employed over 1000 people).

Most companies (68 per cent) had made a profit in the last financial year, but 27 per cent reported a loss. Smaller companies with fewer employees and lower turnovers were more likely to report a loss than larger ones.

Many of the companies were independent companies (41 per cent), and these tended to be smaller than companies that were part of a larger group. 22 per cent of respondents worked for the ultimate holding company of a group, and 35 per cent worked for a subsidiary of a larger company or group (17 per cent UK based and 18 per cent foreign owned).

Most of the companies were in one of two industrial sectors: manufacturing (58 per cent) or business activities (31 per cent). The remainder were spread thinly across most of the other Standard Industrial Sectors.

### 2.1 Job titles of respondents

In total, 968 respondents were interviewed who were representatives of companies that conducted R&D. The aim was to speak to respondents who had responsibility for the company's tax affairs, and would therefore be able to make decisions about issues such as applying for R&D tax credits, as well as knowing if these tax credits had ever been claimed. Qualitative work conducted prior to the survey suggested that people with these responsibilities would be more appropriate respondents for this survey than those with specific responsibilities for R&D (see Annex A and C for further details).

The vast majority of interviews were conducted with senior personnel (ranging from Managing Directors to other Directors or Partners) or financial specialists (such as Finance Directors or Controllers). The job titles of the respondents interviewed are shown in table 2.1.

**Table 2.1 Job titles of respondents**

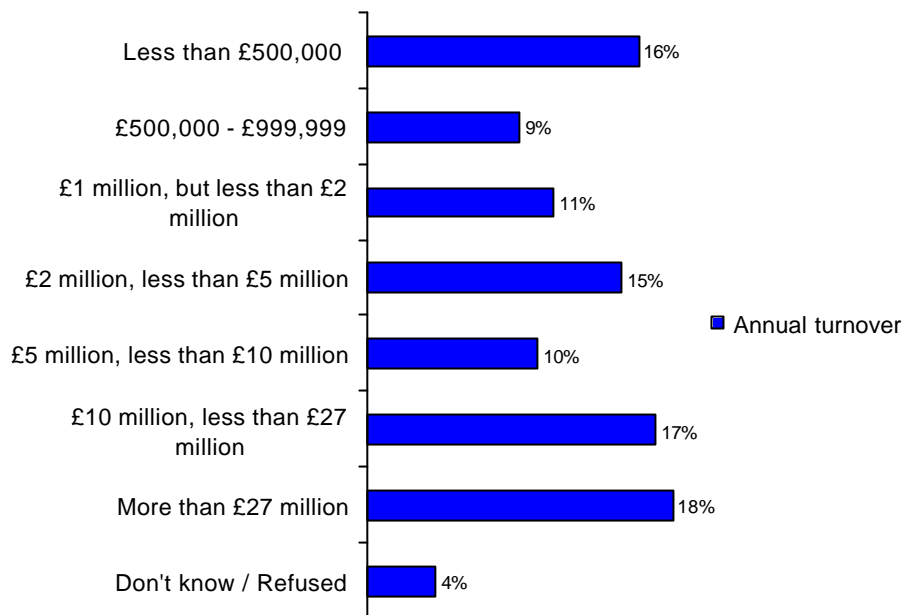
	Total
Base	968
	%
Finance Director	26
Managing Director	15
Director (any other than financial)	13
Financial Controller	12
Accountant	10
Financial Manager/Officer/ Administrator	6
Manager (general or non finance)	4
Company Secretary	4
Group Tax Manager/ Tax Manager	3
Chairman/ Partner/ Chief Executive	2
Tax Consultant/Head of Tax	1
Accounts Manager	1
Other	1

Base: All respondents (968)

## 2.2 Size of companies

### Company turnover

There was a great deal of variation in the reported turnover of the companies interviewed. 5 per cent reported an annual turnover of less than £100,000, while 10 per cent reported an annual turnover of over £100 million. (Turnover was asked as a banded question, and therefore we have not calculated mean turnover).

**Chart 2.1 Annual turnover in the last financial year**

Base: All respondents (968)

### Number of employees

Just as the range of reported turnover varied, so did the number of people employed by companies that participated in the survey. 19 per cent of companies employed fewer than 10 people, and 8 per cent employed over a thousand employees.

Predictably, number of employees was closely related to annual turnover (companies with larger turnovers tended to have more employees).

**Table 2.2 Number of employees**

	Total	Annual turnover		
		Less than £1 million	£1 million, < £27 million	£27 million+
Base	968	239	513	178
No. of Employees:	%	%	%	%
0-4	11	38	1	-
5-9	7	25	2	-
10-19	11	26	8	1
20-49	19	8	32	1
50-99	14	1	25	1
100-249	15	-	24	10
250-999	12	*	6	49
1000+	9	1	2	38

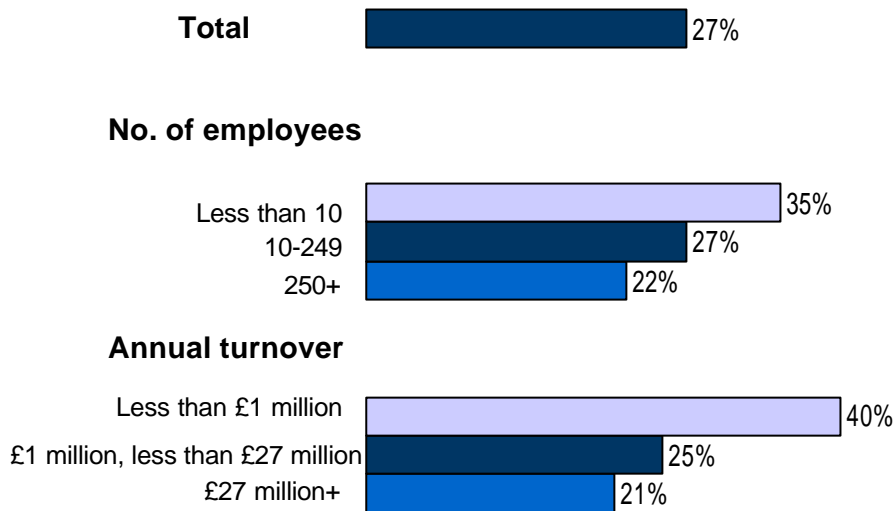
Base: All respondents (968)

## 2.3 Whether company making profit or loss

Most of the respondents (69 per cent) reported that their company had made a profit in the last financial year, while 27 per cent reported a loss.

Not surprisingly, smaller companies with fewer employees or smaller annual turnover were more likely to be making a loss than larger companies, as chart 2.1 shows.

**Chart 2.1 Proportion of companies making a loss**



Base: All respondents (968)

## 2.4 Company structure

41 per cent of respondents worked for single, independent companies, 22 per cent worked for ultimate holding companies, and 35 per cent worked for subsidiaries of larger groups or companies (17 per cent UK-based groups, and 18 per cent foreign owned groups).

Not surprisingly, companies that were part of a larger group (whether they were the holding company or a subsidiary) tended to be larger in terms of both turnover and staff than single independent companies.

**Table 2.3 Company size by structure**

	Total	Company structure			
		Single independent	Holding company	Subsidiary of UK group	Part of larger foreign group
Base	968	401	213	167	178
	%	%	%	%	%
<b>Turnover</b>					
Less than £1 million	25	44	16	8	6
£1 million, < £5 million	26	36	27	21	10
£5 million, < £27 million	27	14	32	40	37
£27 million +	18	2	22	26	45
<b>Number of employees</b>					
Fewer than 10	19	36	9	7	2
10-49	30	44	28	19	13
50-249	29	17	36	43	35
250+	21	2	26	31	47

Base: All respondents (968)

One-quarter (27 per cent) of companies that were not holding companies owned or controlled other subsidiary companies or establishments (in the UK or abroad). This was more common for companies that were part of a group or part of a larger foreign company, but a small proportion of companies that described themselves as independent (12 per cent) said that they owned subsidiary companies.

This was closely related to the size of the company: companies with higher annual turnovers and more staff were more likely to have subsidiary companies than smaller companies.

**Table 2.4 Company structure- ownership of subsidiary establishments**

	Total	Company type		
		Single independent company	Part of a UK group	Part of larger foreign company
Base	750	401	167	177
	%	%	%	%
Yes – in the UK	15	8	22	26
Yes – outside the UK	11	4	16	22
No	77	88	65	64
Don't know	1	*	2	1

Base: Companies that were not ultimate holding companies (750)

(Note: Companies can have subsidiaries both in and outside the UK)

## 2.5 Industry type

There are two sources of data on industrial sector. The Standard Industrial Classification (SIC) code for each business was provided with the original sample. In the questionnaire respondents were asked in which industry their company operated, and this question aimed to collect a more descriptive breakdown of industry than SIC allows.

The two digit SIC showed that the majority of companies interviewed were in two sectors – manufacturing (which accounted for 58 per cent) and business activities<sup>1</sup> such as biotechnology and computer software firms (which accounted for 31 per cent). The rest of the companies were spread across a range of other industries (the wholesale and retail trade accounted for 5 per cent, but no other sector accounted for more than 2 per cent of the achieved sample).

<sup>1</sup> The “Business activities” sector covers industries that are likely to conduct R&D such as software consultancy and supply; hardware consultancy; data processing and other computer related activities; research and experimental development on natural sciences; architectural and engineering activities; industrial cleaning; photographic activities and packaging activities. It also covers industries less likely to be involved in R&D such as real estate and rental businesses, accountancy, market research, legal activities and general management consultancy.

**Table 2.5 Size of companies by sector**

	Total	Industrial sector		
		Manufacturing	Business activities	Other
Base	968	561	303	104
	%	%	%	%
<b>Turnover</b>				
Less than £1 million	25	12	49	21
£1 million, < £5 million	26	28	20	33
£5 million, < £27 million	27	33	18	19
£27 million +	18	23	9	22
<b>Number of employees</b>				
Fewer than 10	19	8	38	19
10-49	30	29	31	37
50-249	29	37	19	19
250+	21	26	11	24

Base: All respondents (968). Please note, the sector classifications are based on SIC codes taken from the sample.

The question respondents were asked during the survey tried to get an idea of the type of work the company did. It was not always possible to code the answer given by the respondent to a specific category, and there is a high proportion in "other" categories (15 per cent) and in a general manufacturing category (13 per cent). The most common specific categories were electronic and electrical (12 per cent) and engineering and machinery (10 per cent). Table 2.6 shows the breakdown, and compares this with the three main SIC categories.

The spread of responses seem to suggest that the traditional manufacturing/services industrial divide is misleading, for R&D companies at least. Instead, there exists a mix of production and services companies in virtually all sectors, with the balance of the mix varying between different sectors. Some sectors, as we might expect, are mostly manufacturing (such as manufacturing not elsewhere classified, electronics, chemicals and automobiles) but even here there are also services companies. Other sectors, such as software, are mainly services, again as we might expect, but here there are also manufacturing companies. The table therefore suggests that a simple services/manufacturing divide is not appropriate. This may reflect, at least in part, the effects of contracting out R&D.

**Table 2.6 Industry**

	Total	Industrial sector (SIC)		
		Manufacturing	Business activities	Other
Base	968	561	303	104
	%	%	%	%
Manufacturing (not elsewhere classified)	13	20	3	5
Electronic and electrical	12	13	9	12
Engineering and machinery	10	14	5	5
Pharmaceuticals and biotechnology	7	5	13	8
Software and computer services	7	1	17	10
Automobiles and parts	5	6	3	3
Chemicals	5	5	4	2
Construction and building	5	6	3	10
Aerospace and defence	4	5	4	1
Food production and processing	4	6	1	3
Oil and gas	3	2	4	2
Telecommunications	3	2	5	3
IT hardware	2	1	4	4
Media and entertainment	2	1	2	5
Mining	1	*	1	4
Transport	1	1	2	1
Other	15	11	19	25

Base: All respondents (968)

Two-fifths (41 per cent) of the companies sold products, 44 per cent sold both products and services, and 13 per cent sold just services. Not surprisingly, companies conducting business activities were more likely to just sell services than manufacturing companies (31 per cent compared to 1 per cent).

### 3 R&D spend and whether claimed tax credits

This section looks at the level of R&D spend in responding companies, and also which companies had claimed R&D tax credits.

#### Summary

There was a wide range of R&D spend, from £0 to over £75 million in the last financial year. Mean spend was £1.9 million, and median spend was £150,000.

The level of R&D spend was related to the size of the company (as measured by annual turnover and number of employees): larger companies tended to have larger levels of R&D spend.

However, proportionately, larger companies spent less on R&D than smaller companies whose R&D spend formed a greater proportion of their annual turnover.

Although the manufacturing companies tended to be larger than the companies in business activities (in terms of both turnover and number of employees) and would therefore be expected to spend more on R&D, there was surprisingly little difference in spend on R&D by industry sector, suggesting that companies in the business activity sector tend to spend a greater proportion of their turnover on R&D than manufacturing companies.

18 per cent of companies said that R&D was their main activity. These companies tended to be smaller (especially in terms of turnover) than companies that did not have R&D as their main activity; but their level of spend on R&D was substantially higher (a median spend of £400,000 compared to £100,000). Companies in the business activity sector were more likely than those in manufacturing to have R&D as their main activity (37 per cent compared to 9 per cent).

Most R&D was conducted predominantly in the UK. Only 6 per cent of companies conducted the majority of their R&D abroad.

Four in ten (43 per cent) respondents said that their company had made a claim for R&D tax credits. 18 per cent of respondents had not considered claiming, as they were unaware of the tax credits. A further 21 per cent of all respondents felt that they would be ineligible for tax credits (due to the type or amount of R&D they do) or would not gain any immediate benefit from it (as they are a large company that is making losses). This leaves 18 per cent of the sample who had not claimed despite being aware of R&D tax credits and feeling that their company could currently benefit.

Taking this into account, seven out of ten respondents (71 per cent) who were aware of R&D tax credits and thought their company was eligible had claimed support.

The likelihood of making a claim increased considerably with R&D spend. Although two-fifths of respondents said their company had made a claim (43 per cent), they accounted for four-fifths (82 per cent) of the total R&D spend.

Companies where the main activity was R&D were more likely to have claimed R&D tax credits than those where it was not the main activity (55 per cent compared to 41 per cent).

Companies that had claimed R&D tax credits were more likely than non-claimant companies to say that they had increased their spend on R&D over the last five years (53 per cent compared to 37 per cent).

### 3.1 Amount spent on R&D

Respondents were asked how much their company had spent on R&D in the last financial year. There was a wide range of spend, from £0 to over £75 million. A quarter (24 per cent) were unable to provide a figure.

The mean spend on R&D in the last financial year was £1.9 million, and the median spend was much less at £150,000 reflecting the skewed distribution of the spend.

As would be expected, R&D spend tended to increase with both the annual turnover of a company and with the number of employees. Table 3.1 shows the mean and median spend on R&D by annual turnover; number of employees and company structure. The amount spent on R&D was larger for companies that were part of a group (either as the holding company of one of the subsidiaries). This is probably related to size, as group companies tended to be larger than single independent companies.

**Table 3.1 Mean and median spend on R&D in the last financial year**

	Base	Mean spend on R&D	Median spend on R&D
<b>Annual turnover</b>			
Less than £1 million	172	£417,700	£50,000
£1 million, less than £5 million	185	£320,900	£100,000
£5 million, less than £27 million	230	£958,800	£200,000
£27 million +	132	£7,643,600	£1,000,000
<b>Number of employees</b>			
Less than 10	123	£89,600	£40,000
10-49	213	£316,600	£100,000
50-249	239	£947,200	£200,000
250+	152	£6,830,900	£884,500
<b>Company structure</b>			
Single independent company	277	£360,600	£50,000
Holding company	173	£2,343,100	£200,000
Subsidiary in UK group	129	£1,868,300	£250,000
Subsidiary of foreign company	143	£4,078,500	£355,000

Base: All respondents providing a figure for R&D spend (729)

### 3.2 R&D spend by industrial sector

As discussed in Chapter 2, there was quite a difference in the size of companies in different sectors. Manufacturing companies tended to be larger than those involved in business activities (as measured by annual turnover and number of staff, see Table 2.5).

Companies involved in business activities tended to spend more on R&D in proportion to their turnover or number of employees than those involved in manufacturing. The level of spend on R&D was similar amongst the two groups despite the manufacturing companies being larger (median spend on R&D among manufacturing companies was £128,000 and among companies in the business activities sector it was £150,000). In both industry types, larger companies tended to spend more on R&D.

**Table 3.2 R&D spend by industrial sector**

	Total	Industrial sector		
		Manufacturing	Business activities	Other
Base	968	561	303	104
	%	%	%	%
<b>R&amp;D spend</b>				
< £10,000	6	6	8	8
£10,000, < £125,000	30	32	26	34
£125,000+	39	39	40	37
Don't know/Refused	25	24	26	21
<b>Median spend</b>	£150,000	£128,000	£150,000	£100,000

Base: All respondents (968)

The most common types of work undertaken by companies involved in business activities were software and pharmaceuticals. These are known to be sectors that conduct a great deal of R&D, which may help to explain the relatively high spend of companies involved in business activities. Comparing R&D spend for the two most common types of work carried out by companies in the manufacturing and business activities sectors illustrates this fact. The level of R&D spend in the most common business activities was far higher than that in the most common types of manufacturing. Mean and median spend in pharmaceutical companies were both far higher than in any other types of companies.

**Table 3.3 Mean and median spend on R&D by type of work**

	Base	Mean spend on R&D	Median spend on R&D
<b>Manufacturing</b>			
Manufacturing (not elsewhere classified)	99	£691,100	£90,000
Engineering and machinery	77	£943,300	£75,000
<b>Business activities</b>			
Software and computer services	56	£2,093,000	£300,000
Pharmaceuticals and biotechnology	63	£4,898,400	£530,000

Base: All respondents providing a figure for R&D spend (729)

A fifth (18 per cent) of the respondents said that R&D was the main activity of their company. Not surprisingly, this was more common among companies that had a higher level of R&D spend (comparing both mean and median spend). In fact, looking at total R&D spend, the 18 per cent of companies that said that their main activity was R&D accounted for 38 per cent of the total R&D spend. These companies tended to be smaller than those that did not have R&D as their main activity (particularly in terms of annual turnover).

Companies engaged in business activities were far more likely than those in other industrial sectors to say that their main activity was R&D (37 per cent compared to 9 per cent of companies in manufacturing or other industrial sectors) and this also goes some way to explaining the fact that companies in the business activity sector tended to be smaller than those in manufacturing, but still have similar levels of R&D spend.

**Table 3.4 Whether R&D is main activity of company**

	Total	R&D main activity	R&D not main activity
Base	968	172	788
	%	%	%
<b>Annual turnover</b>			
Less than £1 million	25	52	19
£1 million, less than £5 million	26	16	28
£5 million, less than £27 million	27	16	29
£27 million +	18	11	20
<b>Number of employees</b>			
Less than 10	19	37	14
10-49	30	30	30
50-249	29	20	31
250+	21	12	23
<b>Mean spend on R&amp;D</b>		£4,047,100	£1,407,000
<b>Median spend on R&amp;D</b>		£400,000	£100,000

Base: All respondents (968)

Many companies (44 per cent) had increased their spend on R&D over the last five years, and only a small minority (12 per cent) had decreased their spend (see Table 3.7). This did not vary significantly by whether or not R&D was the main activity of the company.

Most R&D was undertaken, at least partially, in the UK (97 per cent) and only 1 per cent was undertaken exclusively overseas. Table 3.5 shows the geographical split in greater detail.

Companies with smaller expenditure on R&D were more likely to conduct their R&D in the UK only (84 per cent of companies that spend less than £125,000 in contrast to 71 per cent of those who spent £125,000 or more).

**Table 3.5 Where R&D is undertaken geographically**

	Total	Level of spend on R&D	
		Less than £125,000	£125,000 or more
Base	968	356	373
	%	%	%
In UK only	76	84	71
Predominantly UK, some sites abroad	11	8	15
Evenly split between UK and abroad	4	3	6
Predominantly abroad, some in UK	5	4	7
All abroad	1	1	1
Don't know	2	1	1

Base: All respondents (968)

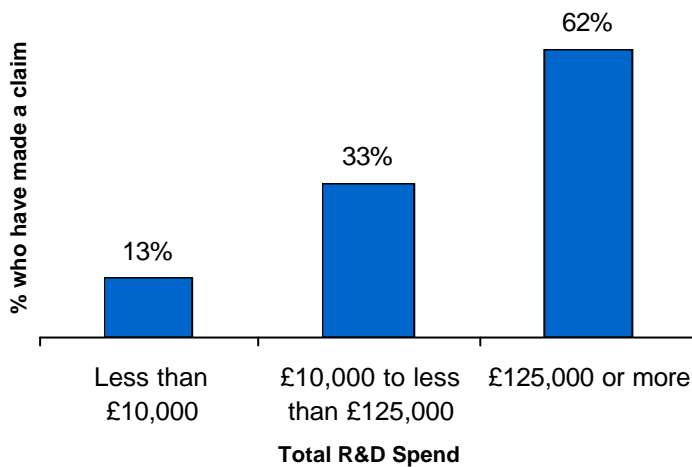
### 3.3 Claiming R&D tax credits

Overall, just over four in ten (43 per cent) of all respondents said their company had ever made a claim for R&D tax credits.

However, seven out of ten respondents (71 per cent) who were aware of R&D tax credits and thought their company was eligible had claimed support. As discussed in more detail later (Chapter 4), a fifth of all respondents (18 per cent) were unaware of the tax credits and so had not considered claiming. A further 21 per cent of all respondents felt that they would be ineligible for tax credits (due to the type or amount of R&D they do) or would not benefit from it (as they are a large company that is making losses). This leaves 18 per cent of the sample who had not claimed despite being aware of R&D tax credits and feeling that their company could benefit immediately from the scheme.

Perhaps unsurprisingly, the likelihood of making a claim increased considerably with R&D spend, as shown by Chart 3.1.

**Chart 3.1: Proportion of companies who have made a claim for R&D Tax Credits, by total R&D spend<sup>2</sup>**



Base: All respondents (968)

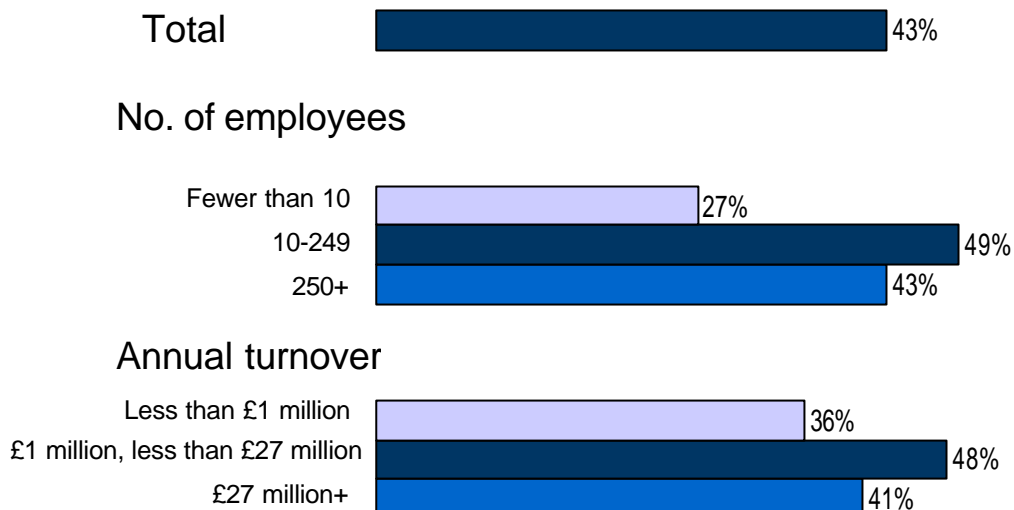
In fact, although two-fifths of companies had made a claim (43 per cent), they accounted for four-fifths (82 per cent) of the total R&D spend.

Companies where the main activity was R&D were more likely to have claimed R&D tax credits than companies where R&D was not the main activity (55 per cent compared to 45 per cent). These companies tended to spend more on R&D and also would have a specific focus on R&D that other more generalist companies might not.

Although R&D spend tended to increase as the company size (in terms of turnover and number of employees) increased, the likelihood of claiming R&D tax credits did not increase with company size uniformly.

Although very small companies with few employees (fewer than 10) were less likely to claim than larger companies, there were no significant differences in the proportion of companies with 10-49 employees, 50-249 employees and 250+ employees which had claimed R&D tax credits. The same pattern was found for turnover. Companies with an annual turnover of less than £1 million were less likely to have claimed R&D tax credits than companies with larger turnovers, but there were no significant differences between companies with turnovers of between £1 million and £5 million, £5 million and £27 million and those with turnovers of over £27 million.

<sup>2</sup> Note: Companies were asked for their R&D spend in the last financial year. It is possible that they had made a claim for previous financial years. Therefore, the 13 per cent of companies spending less than £10,000 on R&D who had claimed may have claimed for earlier financial years when their R&D spend was higher. It may also be that responses from some of the 13 per cent were erroneous.

**Chart 3.2 Proportion of companies claiming R&D tax credits**

Base: All respondents (968)

One possible explanation is that companies where the main activity is R&D were more likely to have claimed R&D tax credits, and these companies tended to be smaller. It is also the case that the large company scheme for claiming R&D tax credits has been in existence for a shorter time period than the SME scheme, so the largest companies will have had less chance to claim.

Although the smallest companies with fewer than 10 employees or turnovers of less than £1 million tended to have smaller R&D spends than larger companies, only a minority of them actually spent less than £10,000 on R&D in the last financial year (11 per cent of companies with fewer than 10 employees spent less than £10,000 on R&D and 12 per cent of companies with a turnover or less than £1 million spent less than this). This does not therefore explain fully why they are less likely to have claimed.

Companies that were subsidiaries of a UK group, or were holding companies based in the UK were far more likely to have claimed R&D tax credits than single independent companies or companies that were part of a larger foreign company.

Companies that were part of larger foreign companies tended to have higher R&D spends than the other types of company, and so might be expected to be more likely to have claimed. However, companies that carried out all or most of their R&D overseas (as was commonly the case for companies that were part of foreign organisations) were less likely to have claimed R&D tax credits than companies that did all or most of their R&D in the UK (33 per cent compared to 44 per cent).

**Table 3.6 Claimants and non-claimants by company structure**

	Total	Company status/ownership			
		Ultimate holding company	Part of a UK group	Single independent company	Part of a foreign company
Base	968	213	167	401	178
	%	%	%	%	%
Made a claim	43	54	51	38	37
No claim made	57	46	49	62	63

Base: All respondents (968)

There were no significant differences in the proportion of companies in manufacturing, business activities and other industries that claimed R&D tax credits.

Companies that had claimed R&D tax credits were more likely than non-claimant companies to say that they had increased their spend on R&D over the last five years, while non-claimant companies were more likely to have kept their level of R&D spending about the same. (There was no difference between non-claimant companies where the respondent was aware of the R&D tax credit scheme and those where the respondent was unaware of the scheme).

**Table 3.7 Pattern of R&D spending over last five years**

	Total	Whether claimed R&D tax credits	
		Yes	No
Base	968	419	549
	%	%	%
Increased	44	53	37
Decreased	12	13	12
Fluctuated	13	12	13
Remained the same	26	19	32
Don't know	4	*	6

Base: All respondents (968)

## 4 Awareness and understanding of R&D tax credits

This section looks at respondents' awareness and understanding of R&D tax credits. The approach taken focussed on self-reported awareness and understanding rather than testing respondents' awareness and understanding through the use of specific questions.

### Summary

Most respondents (82 per cent) had been aware of R&D tax credits prior to the survey. Unsurprisingly, essentially all claimants (99 per cent) had been aware of them, but over two-thirds (68 per cent) of non-claimants had also been aware of them. Awareness among non-claimants increased with company size and R&D spend.

Those aware of R&D tax credits were most likely to have found out about them from an external accountant or auditor (44 per cent) or from the press generally (28 per cent). In contrast, just one in ten (9 per cent) had first found out about R&D tax credits from an HMRC source.

Most of those who were aware of the R&D tax credit scheme felt that they had a good understanding of the scheme (64 per cent). Claimants were, not surprisingly, more likely to say that their understanding was good than were non-claimants (84 per cent compared to 42 per cent).

Those who had sought any advice or information on the scheme were also far more likely than those who had not to feel that they had a better understanding of both the scheme in general and specific aspects of the scheme (75 per cent of those who had sought advice felt they had a good understanding, compared with only 40 per cent of those who had not sought advice). This suggests that the advice being provided is successful in promoting a good understanding of the scheme.

Breaking down general understanding into more specific aspects showed that similar proportions felt that they had a good understanding of what qualifies as R&D for tax credit purposes (68 per cent) and which R&D costs are eligible for tax credits (69 per cent).

### 4.1 How many aware of R&D tax credits

Overall, just over eight in ten (82 per cent) respondents said they had been aware of R&D tax credits prior to the survey.

Perhaps unsurprisingly, nearly all (99 per cent) of those who said their company had made a claim for R&D tax credits said that they had heard of R&D tax credits prior to the survey. However, over two-thirds of non-claimants (68 per cent) also said that they

were aware of R&D tax credits prior to the survey; although in Chapter 7 we see that most of these (55 per cent) did not think that they would qualify for relief.

Among non-claimants, the likelihood of respondents saying they were aware of R&D tax credits prior to the survey increased with R&D spend. Only half (50 per cent) of non-claimants with an R&D spend of less than £10,000 said they were aware of R&D tax credits prior to the survey, compared with over two-thirds (68 per cent) of non-claimants with an R&D spend of £10,000 to less than £125,000 and nearly eight in ten (79 per cent) of those with an R&D spend of £125,000 or more.

This may be a company size effect, as awareness of R&D tax credits also increased with the number of employees in non-claimant companies. 57 per cent of non-claimant companies with less than 10 employees were aware of R&D tax credits, compared with four-fifths (84 per cent) of those with 250 plus employees (Table 4.1)

**Table 4.1 Whether non-claimants previously aware of R&D tax credits by company size**

	Total	Number of employees			
		Less than 10	10 to 49	50 to 249	250 plus
Base	549	133	151	144	116
	%	%	%	%	%
Previously aware	68	57	62	73	84
Previously not aware	31	41	38	26	16
Don't know	1	2	-	1	-

Base: All non-claimants (549)

## 4.2 How first found out about R&D tax credits

Overall, respondents were most likely to have found out about R&D tax credits from an external accountant or auditor (44 per cent) or from the press generally (28 per cent). In contrast, just under one in ten (9 per cent) found out about R&D tax credits from an HMRC sponsored source, such as HMRC leaflets, website, workshops or helpline (see Table 4.2).

Looking at the results by number of employees, medium sized companies with between 10 and 249 employees were more likely to have found out about R&D tax credits from an external accountant or auditor than either small companies (with fewer than 10 employees) or large companies (with 250 or more employees). It is probable that the medium size companies are most likely to use external consultants/auditors on a regular basis, which may explain this finding.

**Table 4.2 Where first found out about R&D tax credits**

	Total	Number of employees			
		Fewer than 10	10 to 49	50 to 249	250 plus
Base	789*	123	233	244	183
	%	%	%	%	%
External accountant / auditor	44	29	51	52	34
Press generally	28	31	27	26	31
<b>TOTAL HMRC source</b>	<b>9</b>	<b>11</b>	<b>10</b>	<b>6</b>	<b>13</b>
o HMRC leaflets or booklets	4	2	5	3	8
o HMRC website	3	7	2	1	2
o Workshops organised by HMRC	1	1	2	*	3
o One to one consultation with HMRC advisor	1	-	1	2	2
o HMRC enquiry centre	*	1	-	-	-
o General HMRC helpline	*	-	-	-	1
From internal colleagues	8	7	8	9	8
Trade body or association	4	7	2	3	6
DTI small business service / business links	3	8	3	1	3
Budget release or chancellor's speech	3	3	3	2	4

Base: All respondents who were aware of R&D tax credits prior to the survey (789)

\* Includes five respondents who did not state their company size

External auditors or accountants were particularly important for claimants, with around half (51 per cent) of claimants saying they first heard about R&D tax credits from an external auditor or accountant. In contrast, only around a third (35 per cent) of non-claimants had first heard of R&D tax credits from an external auditor or accountant.

Companies with higher R&D spends of £125,000 or more were also more likely to say that they had first heard about R&D tax credits from an external auditor or accountant (48 per cent) than companies with a lower R&D spend less than £125,000 (37 per cent).

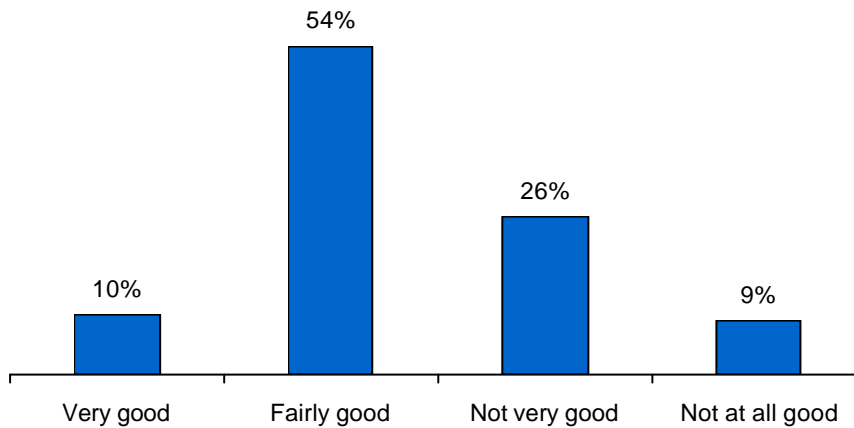
There were no significant differences between companies by company status or ownership in terms of how they had first found out about R&D tax credits.

### 4.3 Understanding of R&D tax credits

Overall, a majority of those who had been aware of R&D tax credits prior to the survey (64 per cent) said they had a good understanding of the scheme, with one in ten (10

per cent) saying their understanding was 'very good' and over half (54 per cent) saying their understanding was 'fairly good'. However, over a third (35 per cent) felt their understanding was not good, with around a quarter (26 per cent) saying 'not very good' and just under one in ten (9 per cent) saying their understanding was 'not at all good' (Chart 4.1).

**Chart 4.1 Level of understanding of the R&D tax credits scheme**



Base: All respondents aware of R&D tax credits prior to the survey (789)

Looking at the results by company size, respondents from companies with fewer than 10 employees were slightly less likely than those from larger companies to have a good understanding of the R&D Tax credits scheme (Table 4.3).

**Table 4.3 Level of understanding of the R&D tax credits scheme by company size**

	Total	No. of employees			
		Fewer than 10	10 to 49	50 to 249	250 plus
Base	789*	123	233	244	183
	%	%	%	%	%
Very good	10	7	11	9	13
Fairly good	54	46	53	59	53
Not very good	26	33	26	24	25
Not at all good	9	13	9	7	9
Don't know	1	1	1	*	-

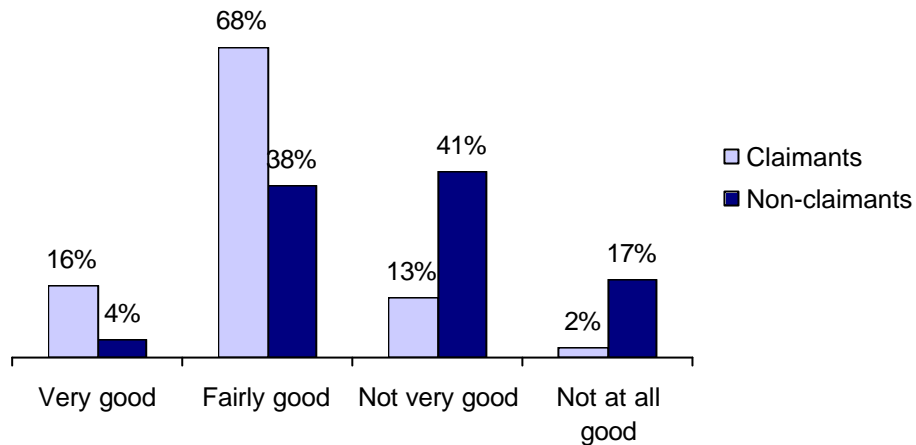
Base: All respondents who were aware of R&D tax credits prior to the survey (789)

\* Includes five respondents who did not state their company size

Perhaps unsurprisingly, claimants were more likely to say their understanding was either 'very good' (16 per cent compared with 4 per cent) or 'fairly good' (68 per cent compared with 38 per cent), while non-claimants were more likely to say their

understanding was 'not very good' (41 per cent) or 'not at all good' (17 per cent), as Chart 4.2 shows.

**Chart 4.2** Level of understanding of the R&D tax credits scheme amongst claimants and non-claimants



Base: All respondents aware of R&D tax credits prior to the survey (789)

Among claimants, levels of understanding of the R&D Tax Scheme rose with R&D spend. Three-quarters (75 per cent) of claimants with an R&D spend of less than £125,000 said that they had a good understanding compared to 90 per cent of claimants with a spend of £125,000 or more. However, this trend was not present among non-claimants, where levels of understanding were similar by level of R&D spend (around 42 per cent had a good understanding).

Levels of understanding of the R&D tax credits scheme also varied depending on whether companies had sought advice or information on R&D Tax credits. Whereas 75 per cent of those who had sought advice felt they had a very good or fairly good understanding of the R&D Tax credits scheme, only 40 per cent of those who had not sought advice but were aware of R&D tax credits prior to the survey felt they had a very good or fairly good understanding of the scheme. Of those who had sought advice from an external advisor, 76 per cent felt they had a very good or fairly good understanding of the scheme (which is not significantly different to those who sought advice from other sources).

This finding is repeated for more specific understanding of the R&D tax credits scheme, as discussed later in this chapter. This suggests that the advice that is being provided on R&D tax credits is successfully helping to promote understanding of the scheme.

**Table 4.4 Level of understanding of the R&D tax credits scheme by advice sought**

	Total	Sought advice from any source	Sought advice from HMRC	Sought advice from external adviser	No advice sought
Base	789	541	190	435	238
	%	%	%	%	%
Very good	10	12	16	12	6
Fairly good	54	62	71	64	34
Not very good	26	21	12	19	38
Not at all good	9	4	1	4	21

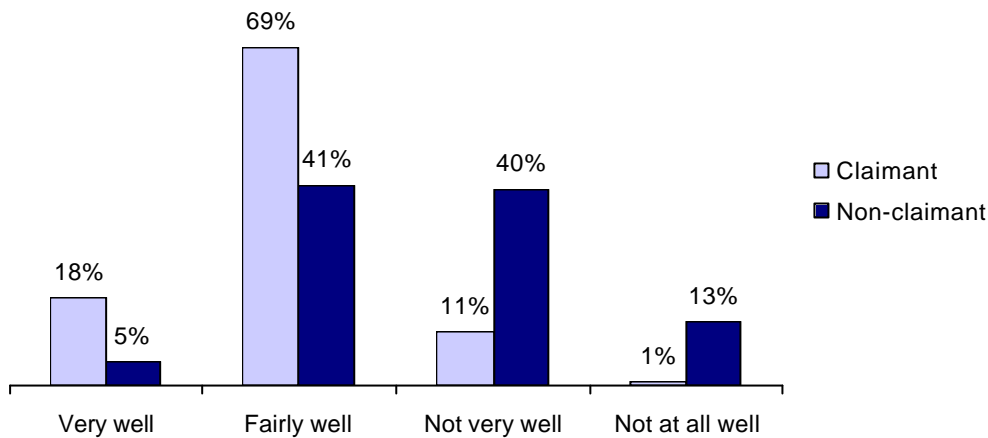
Base: All respondents who were aware of R&D tax credits prior to the survey (789)

(Note: In this table, those seeking advice from HMRC are also likely to have sought advice from other sources. It is not, therefore, possible to use these figures to compare how HMRC advice enhances understanding compared with that from other sources. Too few respondents sought advice only from HMRC to allow for such analysis.)

#### **4.4 Understanding of what qualifies as R&D for tax credit purposes**

Overall, 68 per cent said that they understood what qualifies as R&D for tax credit purposes very or fairly well.

Claimants were almost twice as likely as non-claimants to say they understood this either very well or fairly well, with nine in ten (87 per cent) claimants saying so compared with under half (46 per cent) of non-claimants (Chart 4.3).

**Chart 4.3 How well claimants and non-claimants understand what qualifies as R&D for tax credit purposes**

Base: Respondents aware of R&D tax credits prior to the survey (789)

Respondents with an R&D spend of £125,000 or more were more likely to say they understood what qualified as R&D for tax purposes very well or fairly well compared with respondents with an R&D spend of £10,000 to less than £125,000 (76 per cent compared with 61 per cent). This was not linked to company size, as there was no significant difference in this by company size (as measured by number of employees).

**Table 4.5 Understanding of what qualifies as R&D for tax credit purposes**

	Total	R&D spend		
		Less than £10,000	£10,000 less than £125,000	£125,000 or more
Base	789	34*	229	342
	%	n	%	%
Very well	12	(4)	8	17
Fairly well	55	(17)	53	59
Not very well	25	(10)	29	19
Not at all well	6	(3)	8	4

Base: Respondents aware of R&D tax credits prior to the survey (789)

\* Frequencies shown due to small base size

Looking at levels of understanding of what qualifies as R&D for tax credit purposes by company status, companies that are part of a larger UK group were the most likely to say they understood this either very well or fairly well (with 77 per cent saying so). Companies that are part of a foreign group were the least likely to say they understood this well (with 60 per cent saying so).

**Table 4.6 Understanding of what qualifies as R&D for tax credit purposes by company status**

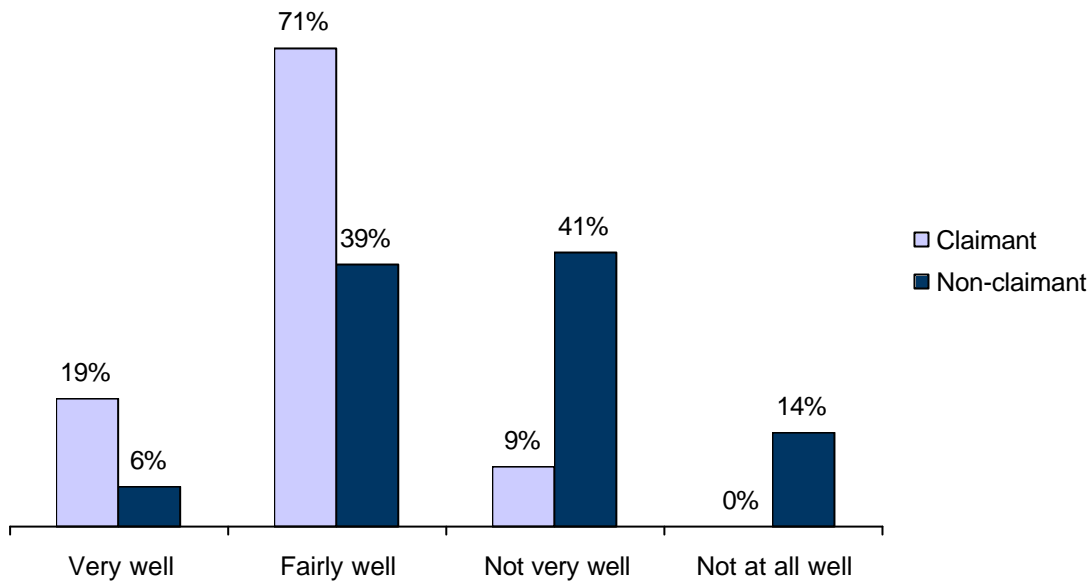
	Total	Company status/ownership			
		Ultimate holding company	Part of a UK group	Single independent company	Part of a foreign company
Base	789	186	143	296	156
	%	%	%	%	%
Very well	12	16	10	11	12
Fairly well	55	55	67	54	47
Not very well	25	23	21	24	33
Not at all well	6	6	2	9	7

Base: Respondents aware of R&D tax credits prior to the survey (789)

Companies who had sought advice to do with R&D tax credits were more likely to say they understood what qualifies as R&D for tax credit purposes either very well or fairly well (77 per cent overall) than those who had not sought advice but were aware of R&D tax credits prior to the survey, of whom 47 per cent felt they understood what qualifies as R&D for tax credit purposes either very or fairly well. Of those who has sought help from an external advisor, 78 per cent felt they understood what qualifies as R&D for tax credit purposes either very or fairly well.

#### **4.5 Understanding of which R&D costs are eligible for tax credits**

Over two-thirds (69 per cent) of those who were aware of R&D tax credits prior to the survey felt they understood which R&D costs are eligible for tax credits either very well or fairly well. This proportion rose to nine in ten (90 per cent) amongst claimants, who were twice as likely to feel they understood this well as non-claimants (45 per cent), as Chart 4.4 indicates.

**Chart 4.4** How well claimants and non-claimants understand which R&D costs are eligible for tax credits

Base: Respondents aware of R&D tax credits prior to the survey (789)

There were no significant differences in levels of understanding of which R&D costs are eligible for tax credits depending on company size.

Respondents with an R&D spend of £125,000 or more were more likely to feel they understood which R&D costs are eligible for tax credits than those with lower spends (77 per cent compared to 61 per cent of those with a spend of £10,000 to less than £125,000). (See Table 4.7).

**Table 4.7** How well respondents understand which R&D costs are eligible for tax credits, by R&D spend

	Total	R&D spend		
		Less than £10,000	£10,000 less than £125,000	£125,000 or more
Base	789	34*	229	342
	%	n.	%	%
Very well	13	(2)	10	17
Fairly well	56	(20)	51	60
Not very well	24	(9)	28	19
Not at all well	6	(3)	10	3

Base: Respondents aware of R&D tax credits prior to the survey (789)

\*Frequencies shown due to small base

Companies that are part of a larger UK group were more likely than all other companies to say they understood which R&D costs are eligible for tax credits, with nearly eight in ten of them saying so (78 per cent). Single independent companies and subsidiary companies that are part of a foreign group were the least likely to say they understood this well (with 65 per cent of both groups saying so).

**Table 4.8 How well respondents understand which R&D costs are eligible for tax credits, by company status**

	Total	Company status/ownership			
		Ultimate holding company	Part of a UK group	Single independent company	Part of a foreign company
Base	789	186	143	296	156
	%	%	%	%	%
Very well	13	17	11	14	8
Fairly well	56	54	66	50	57
Not very well	24	23	20	24	29
Not at all well	6	5	2	10	6

Base: Respondents aware of R&D tax credits prior to the survey (789)

Of those who had sought help to do with R&D tax credits, 77 per cent felt that they understood either very well or fairly well which R&D costs were eligible for tax credits. In contrast, only 50 per cent of those who had not sought help but who were aware of R&D tax credits prior to the survey felt they understood which R&D costs were eligible for tax credits either very well or fairly well. Of those who had consulted an external advisor, 78 per cent felt they understood this issue either very or fairly well.

## 5 Claims made and the claims process

This section concentrates on those companies that have submitted a claim for R&D tax credits, looking at the details of their claim(s) and their views on the claims process.

### Summary

Most companies that had claimed tax credits (68 per cent) had claimed under the small company (SME) scheme; 25 per cent had claimed under the large company scheme. (8 per cent were not sure which scheme they had claimed under).

Companies claiming under the large company scheme tended to be larger (as measured by turnover and number of employees) and have a larger spend on R&D. Companies claiming under the SME scheme were more likely to be operating at a loss (36 per cent compared to 17 per cent).

A fifth of companies that had claimed (21 per cent) had only made one claim. On average, where companies had claimed, each company had made 2.5 claims. 86 per cent of claimants had been successful with at least one of their claims.

Claim size varied greatly – a quarter of claimants (26 per cent) had claimed for £50,000 or less and 18 per cent had claimed for over £500,000. The mean claim size was £1.4 million, and the median was £109,500.

Two-thirds (64 per cent) of respondents' most recent claims had been successful, with just three per cent refused and 33 per cent still awaiting the outcome. Of the successful claims 81 per cent had received the full amount claimed.

Only a minority of respondents in companies that had submitted claims (19 per cent) said that all the work for the claim was done internally. Companies claiming under the SME scheme were more likely than those claiming under the large company scheme to have relied on external help (33 per cent had had all work done externally compared to 15 per cent of the large company scheme claimants).

Most claimants (around three-quarters) found it easy to decide whether projects qualified as R&D; what counted as an eligible cost and to separate out eligible costs from non-eligible costs. Those claiming under the SME scheme seemed more likely to find each of these aspects easy than those claiming under the large company scheme (which may relate to the level of external help received or possibly to the fact that the SME scheme has existed for longer, leading to greater familiarity with the process).

In total, 34 per cent of claimants had been subject to an HMRC enquiry for at least one of their claims. In many cases (39 per cent) the enquiry had had no impact on the claim; in 34 per cent of cases the claim was amended (usually reduced) and a few companies (3 per cent) had had their claim refused. The rest were still awaiting the outcome.

Respondents who were not still awaiting the outcome of the enquiry were asked if the enquiry would have any impact on future claims. Most (54 per cent) said that the enquiry would have no effect on the company pursuing further claims, and 29 per cent said that the enquiry had helped them with future claims. 15 per cent felt that the enquiry had deterred the company from making any further claims.

## **5.1 Which scheme claimed under**

As mentioned in chapter 3, fewer than half of the respondents (43 per cent) said that their company had ever made a claim for tax credits (52 per cent of those who were aware of the tax credit). However, 71 per cent of respondents who were aware of the tax credit and who thought their company would be eligible said their company had made a claim.

Most companies that had claimed R&D tax credit (68 per cent) had claimed under the small company (SME) scheme, while 25 per cent had claimed under the large company scheme. Eight per cent were not sure.

As expected, those claiming under the large company scheme tended to have a higher annual turnover, greater numbers of employees and higher levels of R&D spend.

**Table 5.1 Size of claimant companies and spend on R&D**

	Total	Scheme used to make the claim	
		SME	Large
Base	419	283	103
	%	%	%
<b>All claimants</b>	100	68	25
<b>Turnover</b>			
Less than £1 million	21	28	4
£1 million, less than £10 million	41	51	13
£10 million, less than £100 million	25	17	42
£100 million +	11	1	39
<b>Number of employees</b>			
Fewer than 10	11	16	1
10-49	34	45	5
50-250	33	35	28
250+	5	*	65
<b>R&amp;D spend</b>			
Less than £125,000	25	33	4
£125,000 - £1 million	48	46	59
£1 million+	7	1	24
Don't know	19	19	13

Base: Claimants (419)

Companies claiming under the SME scheme were more likely to be operating at a loss than those claiming under the large company scheme (36 per cent compared to 17 per cent).

## 5.2 Number of claims made

Of the respondents whose companies had claimed R&D tax credits, 21 per cent had just made one claim. Half (49 per cent) had made two or three claims and 16 per cent had made four or five. Three respondents said that their company had made 10 or more claims each (the maximum mentioned was 18). (Two of these companies were holding companies, and one was part of a larger foreign group). On average,

companies had made 2.5 claims each. However, a significant minority of respondents (14 per cent) could not tell us how many claims their company had made in total. This was more common for companies that claimed under the SME scheme, and so might reflect the fact that such companies were more likely to have external help with submitting claims.

Companies that had claimed under the large company scheme were slightly more likely to have made just one or two claims than those that had claimed under the SME scheme (64 per cent compared to 44 per cent), probably because the large company scheme has not existed for so long.

Companies with a larger spend on R&D had also made more claims. A quarter (23 per cent) of companies that had spent £125,000 or more in the last financial year had made four or more claims compared to 10 per cent of those with a smaller level of spend. This seemed to be more of an R&D spend effect than a company size effect, as the relationship between number of claims and company size (as measured by turnover and number of employees) was not so straightforward.

**Table 5.2 Number of claims made**

	Total	Scheme claimed under		Spend on R&D	
		SME	Large	Less than £125,000	£125,000 or more
Base	419	283	103	104	232
	%	%	%	%	%
One	21	22	17	33	14
Two	30	23	48	25	31
Three	19	23	14	19	20
Four or more	16	18	16	10	23
Don't know	14	16	7	13	11

Base: Claimants (419)

### 5.3 Success of claims made

Almost nine in ten (86 per cent) companies that had made a claim had been successful in at least one of their claims. 7 per cent of companies that had made a claim had not been successful in any of their claims; a further 7 per cent were awaiting the outcome of their only claim. There did not appear to be any difference in level of success between those claiming under the SME and large company schemes.

Those respondents whose companies had not yet made a successful claim generally felt that it was likely that the company would reapply in the next few years. Twenty of the thirty unsuccessful companies felt that it was very likely and four felt that it was fairly likely that they would reapply, with only six feeling that it was not very or not at all likely.

## 5.4 Size of (most recent) claim

Respondents were asked, roughly, how much R&D spend they had claimed for in their most recent claim. Many of the claims were relatively small. A quarter of claimants (26 per cent) had claimed for £50,000 or less. A further 18 per cent had claimed for between £50,000 and £125,000. At the other extreme, 18 per cent had claimed for over £500,000 (including four per cent that had claimed for £10 million or more). The mean claim size was £1.4 million, while the median claim size was £109,500.

Companies claiming under the large company scheme tended to submit much larger claims than those claiming as SMEs. Around half of the companies claiming under the large company scheme (47 per cent) had claimed for more than £500,000 of R&D in their most recent claim compared to seven per cent of the SME claimants.

However, it appears that companies that claimed under the SME scheme were more likely to claim a greater proportion of their R&D (the median was 66 per cent) than those companies that claimed under the large company scheme (where the median was 45 per cent). This may be because large companies tend to spend more on non-qualifying R&D costs such as capital expenditure.

**Table 5.3 Size of claim**

	Total	Scheme claimed under	
		SME	Large
Base	419	283	103
	%	%	%
Less than £10,000	4	4	1
£10,000 - £50,000	22	28	5
£50,001 - £124,999	18	22	7
£125,000 - £299,999	14	14	17
£300,000-£500,000	8	7	12
More than £500,000	18	7	47
Don't know/refused	17	17	13
<b>Mean size of claim</b>	<b>£1.4 million</b>	<b>£340,000</b>	<b>£4.4 million</b>
<b>Median size of claim</b>	<b>£109,500</b>	<b>£87,000</b>	<b>£656,500</b>
<b>Claim as proportion of spend (median value)</b>	<b>60%</b>	<b>66%</b>	<b>45%</b>

Base: Claimants (419)

## 5.5 Success of most recent claim

In total, 64 per cent of companies had been successful in their most recent claim, a third of claimants (33 per cent) were still awaiting the outcome of their most recent claim, and 3 per cent had claimed unsuccessfully. Most of the successful respondents (81 per cent) had received tax credit on the full amount that they had claimed, but nine per cent (21 respondents) had not (10 per cent did not know). The most common reasons for not receiving the full amount were that some of the expenses claimed were not eligible (nine respondents) and that some of the work was not classed as R&D (four respondents).

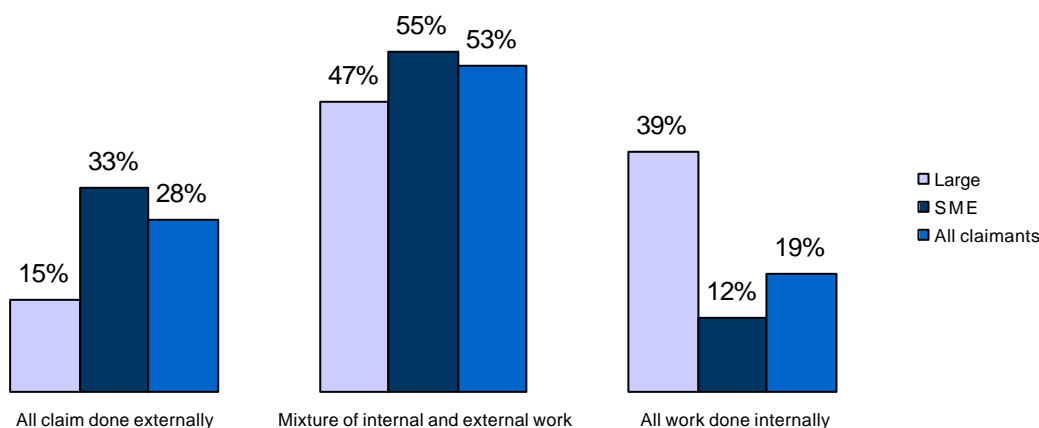
Those companies who received a tax credit for their most recent claim were asked in what form it had been awarded. Most (59 per cent) had had a deduction in their corporation tax bill. Thirty two per cent had received a cash payment and 4 per cent had received both. Cash payments are only awarded via the SME scheme, and this was borne out by the research. Forty per cent of those claiming under the SME scheme had received a cash payment, with 52 per cent having a deduction in their tax bill and 5 per cent receiving both.

Of those getting a cash payment, 66 per cent said that this was for 24 per cent of the qualifying expenditure (the maximum amount available to SMEs not in profit), 12 per cent said it was for some other amount and 22 per cent did not know.

## 5.6 The claims process

Only a minority of respondents in companies that had submitted claims (19 per cent) said that all the work for the claim had been done internally. Most companies (53 per cent) involved a mixture of internal and external staff in submitting claims, although a significant minority (28 per cent) had all of the work done externally. Companies that applied via the SME scheme were more likely to rely on external help than those claiming under the large company scheme.

**Chart 5.1 Type of help in submitting claim**



Base: Claimants (419)

Companies receiving external help were less likely to have sought help from HMRC to do with tax credits (24 per cent of companies where all the work was done externally)

had sought help or advice from HMRC compared to 43 per cent of companies where all the work was done internally). There was no significant difference between companies using internal or external resources in the success of their claims.

Half of the respondents whose company had made a claim (50 per cent) said that they had had a lot of personal involvement in completing the R&D tax claim, and a further 34 per cent said that they had had some involvement. 7 per cent of respondents said that they had had no involvement in the process at all. There was no difference by scheme claimed under, or by level of R&D spend. Some of those who had had little or no involvement with the most recent claim had had more involvement in earlier claims.

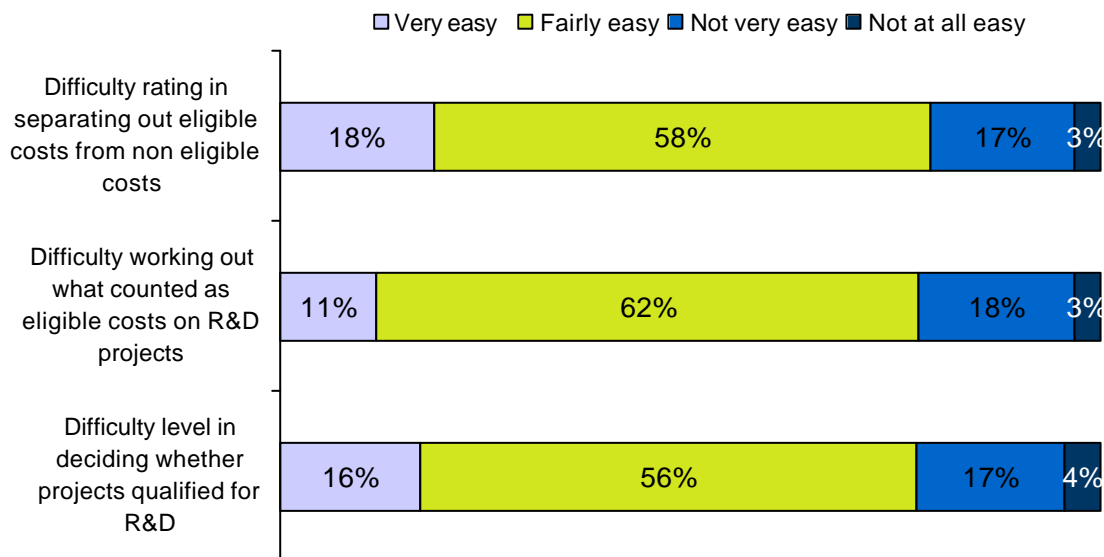
Whatever the level of involvement, all respondents in companies that had claimed R&D tax credits were asked questions relating to the claims process.

As chart 5.2 shows, most respondents (around three-quarters) found the following aspects of the claim easy:

- Deciding whether projects qualified as R&D
- What counted as eligible costs on R&D projects
- Separating out eligible costs from non-eligible costs

However, around 20 per cent of claimants found each of these not easy to deal with. Different companies appeared to have difficulties with different issues, as only 7 per cent of claimants found all three aspects difficult.

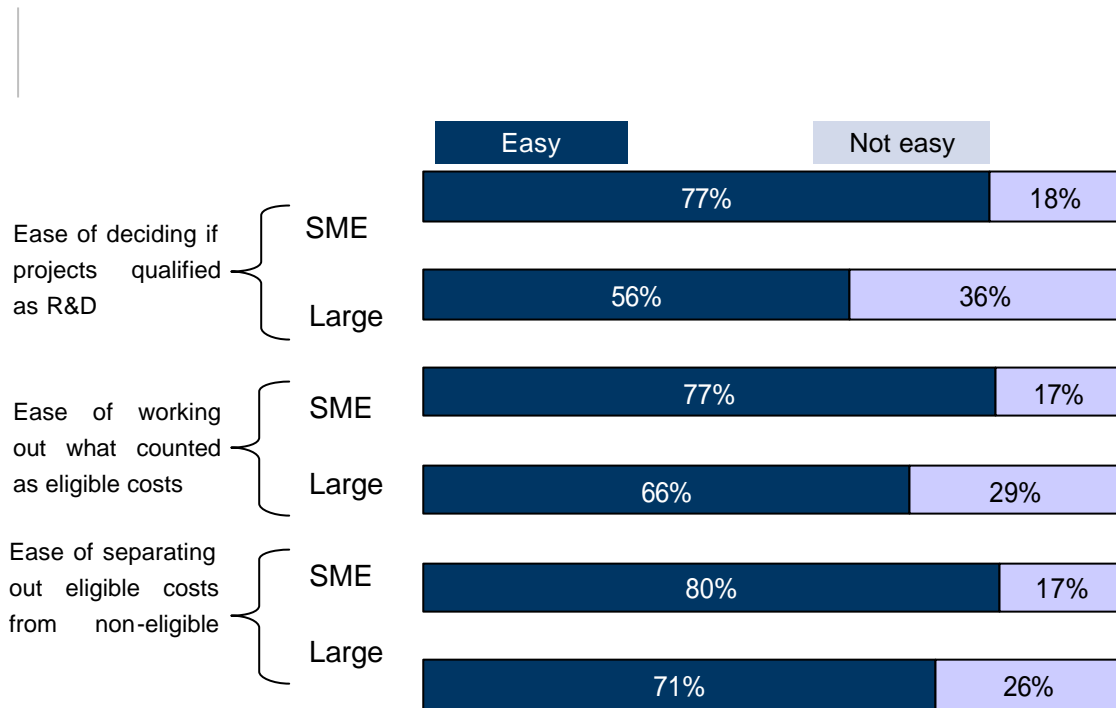
**Chart 5.2 Views on ease of aspects of the claims process**



Base: Claimants (419)

For all three aspects, respondents working for companies that claimed under the large company scheme found these more difficult than those claiming as SMEs.

**Chart 5.3 Views on ease of process by scheme applied under**



Base: Claimants (419)

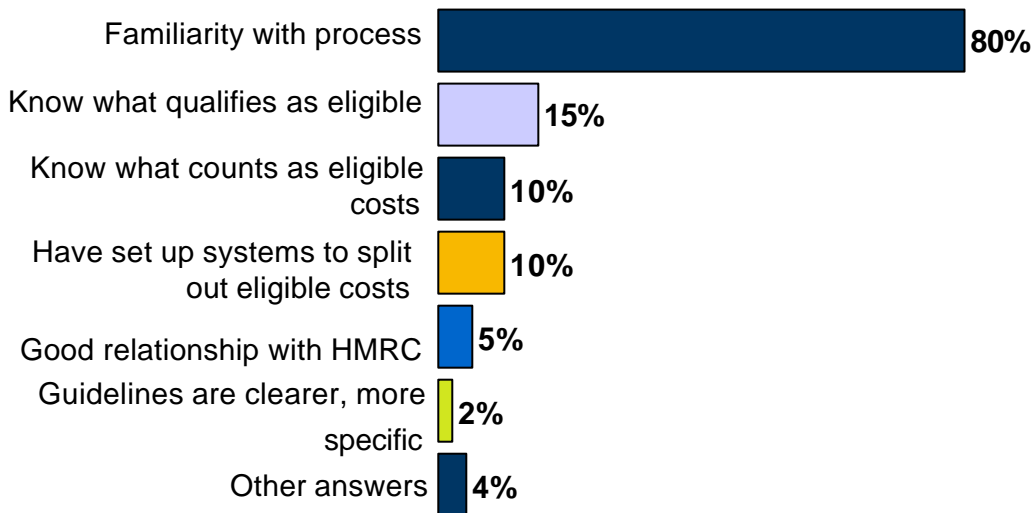
This may reflect the fact that companies claiming under the SME scheme get more external help with the claims process than those claiming under the large company scheme. In fact, companies where all of the claim work was done externally seemed more likely to find each aspect of the claim easy compared to those where all the work was done internally. However, the base sizes are low, so this finding should be treated with caution.

Once the final amount of a claim is calculated, it has to be provided on the Corporation Tax Self Assessment form (form CT600). The ease or otherwise of completing this form was an area that most of our respondents (especially those working for SMEs) were not sure about. 60cent could not answer this question (rising to 65 per cent of those claiming under the SME scheme). This suggests that this form is generally completed externally, or, possibly, by more junior staff internally. Of those able to answer (169 respondents), most (87 per cent) found it very or fairly easy to fill in. Only 3 per cent said that it was not at all easy.

Claimants who had made more than one claim were asked if the most recent claim was more difficult or easier than earlier claims. Most respondents (53 per cent) felt that there had been no change, but a third (34 per cent) felt that the claims process had become easier over time. (Very few respondents – seven per cent – felt that the process had become more difficult). There was no difference by the number of claims made or by the scheme claimed under.

The reasons why the claims process had become easier are shown in chart 5.4. The most common reason given (mentioned by 80 per cent) was familiarity with the process.

**Chart 5.4 Reasons why claims process has become easier**



Base: Respondents saying claims process had become easier over time (90)

The twenty respondents who felt that the claims process had become more difficult over time were also asked why this was. Six felt that the process had become more complex; four blamed internal company changes that had made it more difficult to split out eligible costs; four said that the type of R&D their company was doing had changed.

31 per cent of respondents who had made a claim said that there were improvements or changes that they would like to see to the application process. Most of the answers given fell into one of a few main categories. Table 5.4 shows the main types of improvement ranked in order of how often they were mentioned.

**Table 5.4 Improvements or changes suggested to the application process**

	Total (All who would like to see improvement)	Total (All claimants)
Base	129	419
	%	%
Make the process easier, more user-friendly	20	6
Greater clarification, improved definition of what counts as R&D	18	5
Wider range of eligible costs	18	5
Clearer definitions (general)	16	5
Greater clarification, improved definition of eligible costs	13	4
More information/feedback	9	3
Other answers	16	5

(Note: Respondents could give more than one answer)

## 5.7 Enquiries

One-fifth (20 per cent) of the claimants said that their most recent claim for R&D tax credits had been subject to an HMRC enquiry. This was slightly more common among companies making their first claim (27 per cent compared to 16 per cent of those whose most recent claim was not their first).

Of those whose most recent claim had not been subject to an enquiry and who had made previous claims, 28 per cent said that a previous claim had been subject to one. Thus, in total, 34 per cent of claimants had been subject to an enquiry at some point. There did not seem to be any differences by scheme claimed under or the amount of R&D claimed for.

In many cases (39 per cent), the (most recent) enquiry had had no impact on the claim and it had proceeded without change. A similar proportion (34 per cent) had had their claim amended (usually being reduced, but for three companies the enquiry led to the claim being increased). 20 per cent of companies were still awaiting the outcome of their enquiry, and a few companies (3 per cent) had had their claim refused by HMRC (4 per cent could not say).

Respondents who were not still awaiting the outcome of the enquiry were asked if the enquiry would have any impact on future claims. Most (54 per cent) said that the enquiry would have no effect on the company pursuing further claims, and 29 per cent said that the enquiry would help them with future claims. 15 per cent felt that the enquiry would deter the company from making any further claims.

## 6 Information sought on tax credits

Respondents who said they were aware of R&D tax credits prior to the survey were asked if they had sought information about R&D tax credits. Those who said they were not aware of R&D tax credits prior to the survey were not asked these questions.

### Summary

Most (69 per cent) of the respondents who were aware of R&D tax credits had sought help or advice on them.

Not surprisingly, claimants were far more likely to have sought help or advice than non-claimants (82 per cent compared to 54 per cent).

It was far more common for respondents to have sought help or advice from non-HMRC sources than from HMRC sources (63 per cent compared to 24 per cent). By far and away the most common HMRC advice source was the HMRC website, followed by booklets or leaflets. The main non-HMRC source of advice were external business advisers (e.g. accountants or consultants).

The type of information about which help or advice was sought was remarkably consistent whatever the source of advice. Around two-fifths sought advice on definitions of what types of R&D qualify for tax credits, and a similar proportion sought advice on what counts as eligible costs. Three-fifths sought general information on the application process.

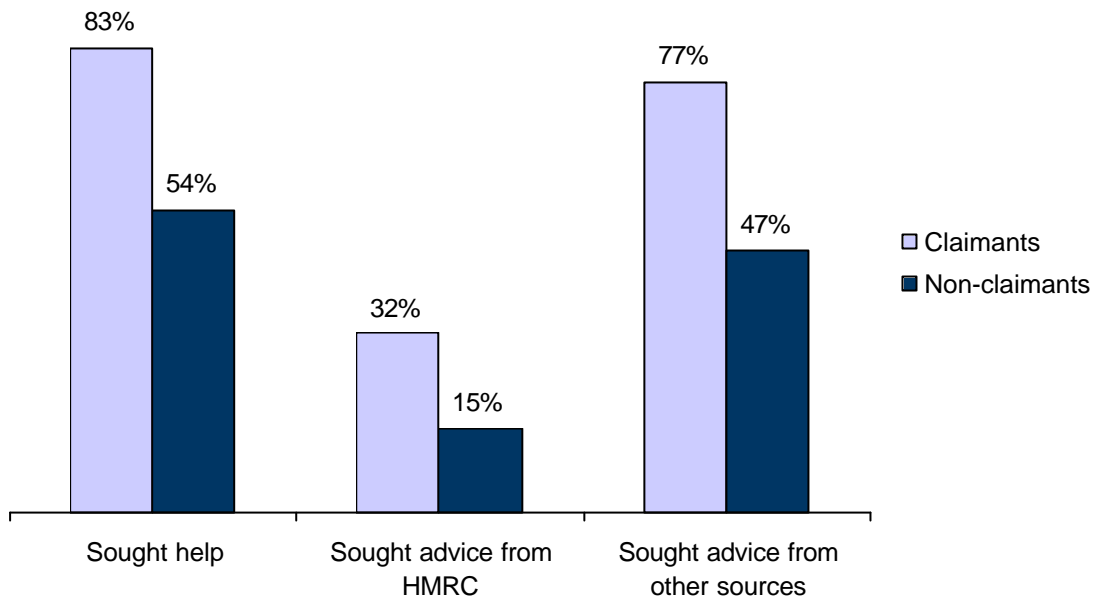
Encouragingly, the majority of those who sought advice from HMRC (68 per cent) said that they had got all the help or information they needed. Furthermore, half (52 per cent) said that they had received the advice they needed during their first contact with HMRC, while 34 per cent said they needed further contact to obtain the help they needed.

Overall, 69 per cent of respondents who were aware of R&D tax credits prior to the survey had sought help to do with R&D tax credits from either HMRC or another source. Claimants were, not surprisingly, more likely to have sought advice than non-claimants (82 per cent of claimants had sought advice compared to 54 per cent of non-claimants who were aware of R&D tax credits).

While 24 per cent of those who were aware of R&D tax credits prior to the survey had sought help from HMRC, 63 per cent had sought help from an alternative source.

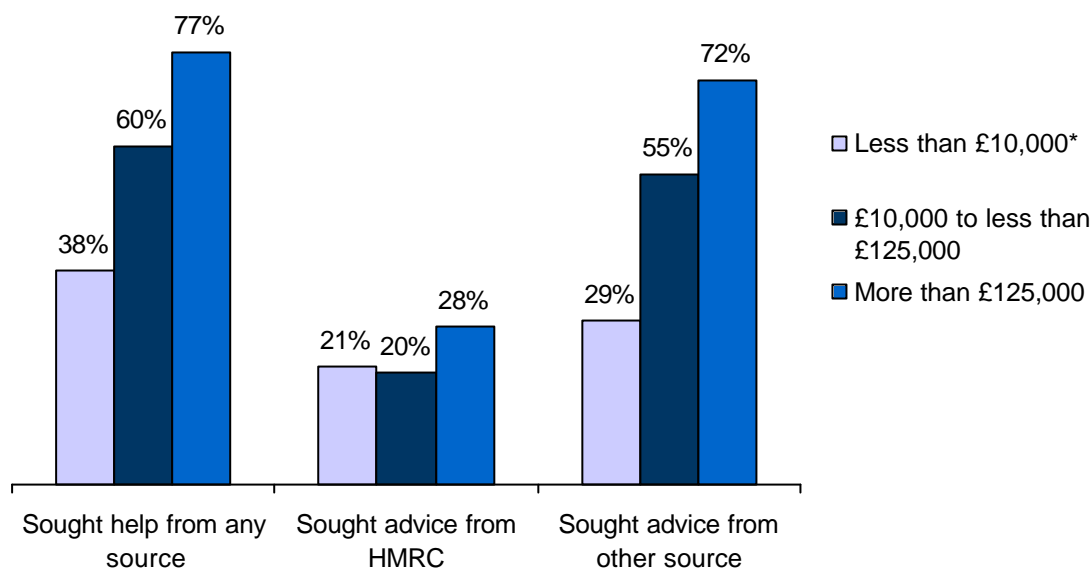
Amongst claimants, 32 percent sought advice from HMRC (see chart 6.1), while 77 percent sought help from other sources. Non-claimants, as mentioned above, were less likely to have sought advice from either HMRC (with 15 per cent doing so) or other sources (with 47 per cent doing so).

**Chart 6.1 Seeking advice from HMRC compared with seeking advice from other sources amongst claimants and non-claimants**



Base: Respondents aware of R&D tax credits prior to the survey (789)

The likelihood of seeking help also varied with R&D spend, with companies with a higher R&D spend being more likely to seek advice from both HMRC and other sources (Chart 6.2). However, while those with an R&D spend of less than £10,000 were only slightly more likely to seek advice from other sources than from HMRC, those with a greater R&D spend were much more likely to seek advice from other sources (with 72 per cent doing so) than from HMRC (with 28 per cent doing so). This is probably linked with the fact that claimants were more likely to seek advice, as claimants tend to have higher R&D spends than non-claimants.

**Chart 6.2 Seeking advice from HMRC compared with seeking advice from other sources by R&D spend**

Base: Respondents aware of R&D tax credits prior to the survey (789)

\* Please note the small base size (< 50). Therefore the figures should be treated with caution.

Claimants were also asked at what points in their claim they had sought help from HMRC. Similar proportions had sought help before deciding whether to claim (46 per cent) and when putting together their claim (47 per cent), while around one in five (19 per cent) had sought help at some other time. (Respondents could give more than one answer to this as they may have sought help or advice on more than one occasion).

## 6.1 Sources of advice consulted

Of the various sources of help and information available from HMRC, respondents were most likely to have consulted the HMRC website (85 per cent), while around two fifths (44 per cent) had referred to HMRC booklets or leaflets, and a third had discussed the issue with an HMRC advisor (Table 6.1).

**Table 6.1 Where sought information from HMRC on R&D tax credits**

	Total
Base	190
	%
HMRC website	85
HMRC booklets or leaflets	44
Discussion with HMRC advisor / taxman	34
HMRC helpline	12

Base: Respondents who sought information from HMRC on R&D tax credits (190)

The most common non-HMRC sources of advice were external business advisors such as consultants or accountants, with nearly nine in ten (88 per cent) of those who had sought advice from a non-HMRC source using these. All other sources of advice were cited by less than one in twenty of those who had sought advice from a non-HMRC source (5 per cent, see Table 6.2).

**Table 6.2 Non-HMRC sources of advice**

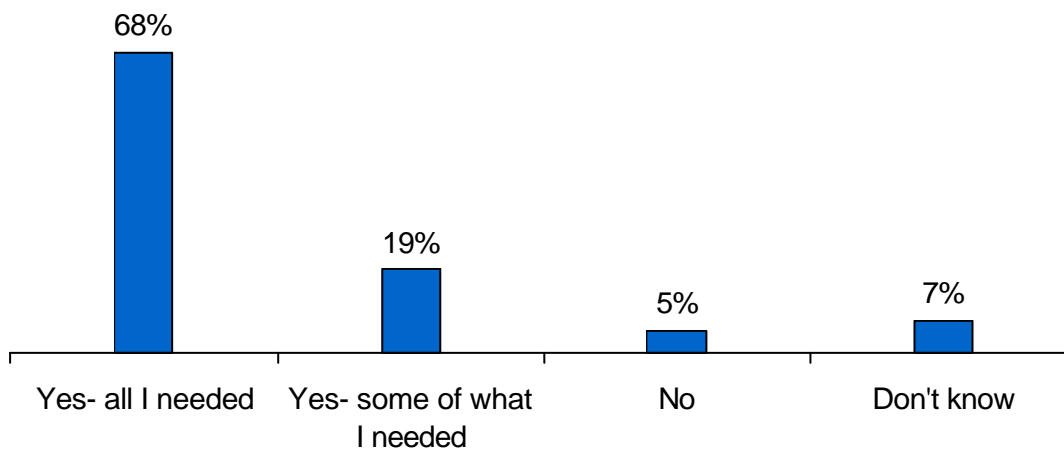
	Total
Base	495
	%
External business advisors (consultants / accountants)	88
Internal staff (e.g. R&D colleagues, internal accountants)	3
DTI (including small business service or business links)	2
Tax advisors	2

Base: Respondents who sought advice from sources other than HMRC (495)

## 6.2 Whether respondents who sought help from HMRC received the help they needed

Encouragingly, the majority of those who had sought help from HMRC (68 per cent) said they had got all the help or information they needed. A further fifth (19 per cent) said they received at least some of the help or information they needed, while one in twenty (5 per cent) said they had not received the help or information they needed (Chart 6.3).

**Chart 6.3 Whether got the help and information asked for from HMRC**



Base: Respondents who sought information from HMRC on R&D tax credits (190)

Furthermore, over half (52 per cent) received the help they needed during their first contact with HMRC, while a third (34 per cent) said they needed further contact to obtain what they needed.

### 6.3 Types of help sought

When asked what types of help or information they had sought, respondents were most likely to have contacted HMRC to find out what counts as eligible costs (82 per cent) and to clarify the definitions of what types of R&D qualify for tax credits (81 per cent) (see Table 6.3).

The types of advice sought by respondents from non-HMRC sources were the same as the types of advice sought from HMRC (see Table 6.3). As can be seen, each type of advice was sought by similar proportions regardless of whether respondents were consulting HMRC or other sources of advice. Around eight in ten respondents had sought advice from non-HMRC sources regarding the definitions of what types of R&D qualify for tax credits (84 per cent) and what counts as eligible costs (78 per cent), while just under two-thirds (62 per cent) had sought general information about the application process.

**Table 6.3** Types of help or information sought from sources other than HMRC

	HMRC sources of information	Non HMRC sources of information
Base	190	495
	%	%
What counts as eligible costs	82	84
Definitions of what types of R&D qualify for tax credits	81	78
General information about the application process	54	62

Base: Respondents who sought information from HMRC on R&D tax credits (190); respondents who sought information from non-HMRC sources (495)

## 7 Non-claimants

This section concentrates on the companies that have never submitted a claim for R&D tax credits. It looks at possible reasons why a claim has not been made and the likelihood of that company making a claim in the future.

### Summary

Over half (57 per cent) of respondents worked for companies that had not yet made a claim for R&D tax credits.

Most respondents (68 per cent) who worked for companies that had not claimed had heard of R&D tax credits before the survey. Those working for larger companies, with greater spends on R&D were more likely to have heard of R&D tax credits than those working for smaller companies.

Of those companies that were aware of R&D tax credits but had not claimed, 55 per cent felt that they would not be eligible (due to the type or amount of R&D they do) or that the tax credit would not be useful (as they were a large company operating at a loss). In particular, 32 per cent said that they carried out a type of R&D that is not eligible for tax credits.

A third (33 per cent) of non-claimants who were aware of tax credits said that they had not applied as they did not think that the tax saving would justify the effort of applying.

Over half (56 per cent) of those who did not think that the R&D they did was eligible had taken advice on this (mainly from tax consultants and other accountants).

Of those who felt that the tax saving would not justify the effort of applying, most (69 per cent) agreed that it would take a lot of time to separate out eligible R&D costs. A similar proportion (67 per cent) agreed that the financial rewards would be insufficient.

Most (60 per cent) of the non-claimants who were aware of R&D tax credits felt that it was likely that they would make a claim for R&D tax credits in the next five years. Those saying that the R&D they did was not eligible were far less likely to think that they would apply (26 per cent).

Respondents who had not been aware of R&D tax credits before the survey, who had read the fact sheet that we had sent, were keen to find out more. Three-quarters (72 per cent) said that they were likely to investigate further.

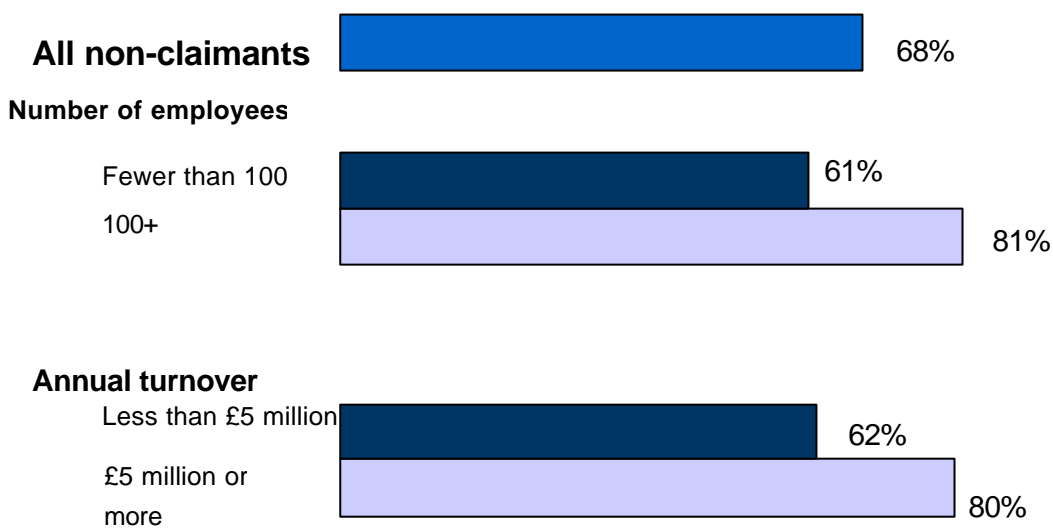
### 7.1 Reasons for not applying for R&D tax credits

Over half (57 per cent) of the respondents worked for companies that had not yet made a claim for R&D tax credits.

Most respondents (68 per cent) who worked for companies that had not claimed were aware of R&D tax credits before we contacted them. Those working for companies with a higher spend on R&D were more likely to have heard of R&D tax credits (92 per

cent of respondents working for companies that spent £125,000 or more compared to 74 per cent of respondents working for companies that spent less than this). This also seemed to be linked to the size of the company, as respondents working for non-claimant companies with larger turnovers and more employees were more likely to be aware of R&D tax credits. (62 per cent of those working for non-claimant companies with a turnover of less than £1 million were aware of R&D tax credits compared to 80 per cent of those working for companies with a turnover of £5 million or more). Levels of R&D spend and size of company were linked as R&D spend tended to increase with company size.

**Chart 7.1 Awareness of R&D tax credits among non-claimants**



Base: All non-claimants (549)

Respondents who were aware of R&D tax credits were asked why their companies had not applied for R&D tax credits, and table 7.1 shows the proportions saying that each statement applies to their company.

**Table 7.1 Reasons for not applying for tax credits**

	Total	Total R&D spend	
		Less than £125,000	£125,000 or more
Base	375	161	111
	%	%	%
Do not spend enough on eligible R&D to qualify for tax credits	25	36	10
Type of R&D done is not eligible	32	40	25
Do not think the tax saving would justify the effort of applying	33	40	32
We are a large company making losses, so tax relief would be of no immediate benefit	18	14	23

Base: Non-claimant companies where respondent was aware of R&D tax credits (375)

A fifth (18 per cent) of the companies saying that they did not spend enough on eligible R&D to qualify had spent less than £10,000 on R&D in the last financial year. However, companies that had an overall spend of more than £10,000 may be aware that some of these R&D costs will not be eligible for the tax credit.

Taken together, 55 per cent of non-claimant companies who were aware of R&D tax credits did not claim because they did not think that they would be eligible or able to use the relief - 32 per cent carried out a type of R&D that was not eligible for relief, 25 per cent did not spend enough on R&D to be eligible for the relief, and 18 per cent were large companies making losses and so tax relief would be of no immediate benefit. (It was possible for companies to agree with more than one of these reasons, so the overall figure is less than the sum of these).

However, 33 per cent said that they did not think the benefit of the tax credit would justify the effort of applying. As well as having a large R&D spend, many of these companies were large with over 250 staff, an annual turnover of over £27 million and making a profit.

A small proportion of non-claimants who were aware of R&D tax credits (15 per cent) said that none of the four reasons given applied. For this group, there is no obvious reason why they have not applied for R&D tax credits – as they think they are eligible, and do not think that the effort outweighs the benefit. In terms of their size, turnover and industrial sector, this group was similar to other non-claimants who were aware of tax credits, but they tended to have a higher R&D spend.

Over half (56 per cent) of those who did not think that the R&D they did was eligible had taken advice on this (mainly from tax consultants and other accountants).

Of those who felt that claiming R&D tax credits is not worth the effort, most (69 per cent) agreed that it would take a lot of time to separate out eligible R&D costs. This was very common among companies that had spent £125,000 or more on R&D in the last financial year (29 out of 35 respondents asked agreed with this statement). A

similar proportion (67 per cent) agreed that the financial rewards would be insufficient for the company to claim tax credits. This proportion did not vary by spend on R&D. Far fewer (14 per cent) agreed that they would be concerned that applying for R&D tax credits could lead to an HMRC enquiry. Again, this did not vary by spend on R&D.

**Table 7.2 Concerns about applying for R&D tax credits**

	Total agreeing	Total R&D spend	
		Less than £125,000	£125,000 or more
Base	125	64	35*
	%	%	n
It would take a lot of time to separate out eligible R&D costs	69	59	(29)
The financial rewards would be insufficient	67	69	(25)
Concerned that applying could lead to HMRC enquiry	14	16	(7)

Base: Non-claimants who think that the tax saving would not justify the effort of applying (125)

\*Frequencies shown due to small base size

Most (60 per cent) of the non-claimants who were aware of R&D tax credits felt that it was likely that they would make a claim for the tax credits in the next five years (27 per cent were very likely and 33 per cent fairly likely). A fifth (22 per cent) felt that they were not very likely to apply and 13 per cent were not at all likely to apply in the next five years.

Respondents who had said that they did not think that the tax saving would justify the effort of applying were slightly more likely say that they would make a claim in the next five years than those giving other reasons (50 per cent were very or fairly likely to apply) and those who said that the R&D they did was not eligible were less likely to say that they would apply (26 per cent were very or fairly likely to apply).

The respondents who were not aware of R&D tax credits prior to the survey, but who read the fact sheet we had sent them (169 respondents) seemed keen to find out more. Half (50 per cent) said that they were very likely to investigate further to see whether their company could claim, and 22 per cent said that they were fairly likely to do this. A fifth (21 per cent) said that they were not very likely to do any further investigation and 6 per cent were not at all likely to do so.

## 8 Impact of R&D tax credits

This chapter looks at the impact of R&D tax credits on claimant companies – in terms of both internal accounting changes that have been made, and in terms of spend on and type of R&D. It also investigates what non-claimants feel the impact of the R&D tax credits could be on their companies, and on R&D in the UK in general.

### Summary

Half (50 per cent) of those with a successful claim said that R&D tax credits had had some impact on either their R&D spend or R&D projects.

Around a fifth (19 per cent) of the successful claimants took the expected value of the tax credits into account when setting budgets, and this was most common among companies that had claimed under the SME scheme (22 per cent compared to 9 per cent). Most of those taking the R&D tax credit value into account said that it led to an increase in their R&D budget (58 per cent).

A third of companies with a successful claim (34 per cent) said R&D tax credits had enabled them to take on projects that needed a longer time to pay off; a quarter (24 per cent) said that they had allowed them to take on more risky R&D projects.

Over half (57 per cent) of claimants felt that R&D tax credits were an incentive to undertake further R&D. This was more common among those who claimed under the SME scheme (64 per cent compared to 41 per cent).

A similar proportion of non-claimants (58 per cent) also felt that R&D tax credits were an incentive to undertake further R&D. This was more common among smaller companies (74 per cent of companies with fewer than 10 employees compared to 42 per cent of companies with 250+ employees).

Non-claimants were slightly more optimistic about the impact that R&D tax credits could have on the type of R&D their company did. Although only a quarter of claimant companies said that R&D tax credits had allowed them to take on more risky R&D projects, 47 per cent of non-claimants felt that this would be a likely impact of the scheme.

Overall, half (50 per cent) of those with a successful claim said that R&D tax credits had had an impact on either their R&D spend or R&D projects, whether by causing them to take the expected value of tax credits into account when setting their R&D budget, enabling them to take on more risky projects, enabling them to take on projects which take longer to pay off, attracting more R&D projects from abroad or preventing UK R&D projects from migrating overseas.

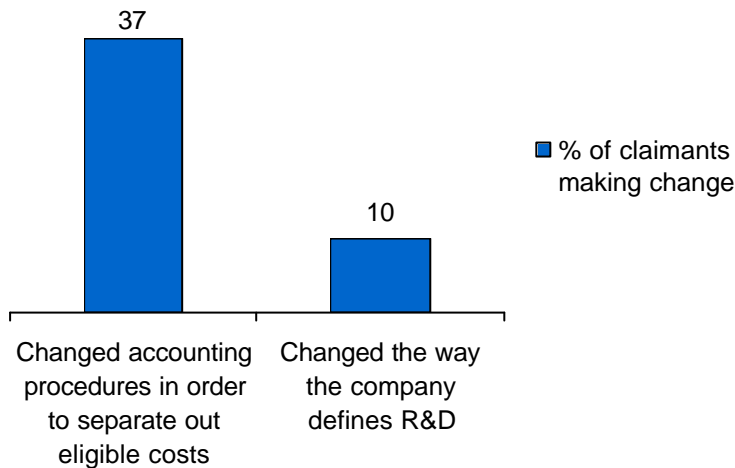
### 8.1 Impact on internal accounting

Overall, around a third (37 per cent) of all claimants (both successful and unsuccessful) said that they had made changes to their accounting procedures in order to separate out eligible costs. This was more frequently the case amongst those claiming under the

SME scheme, of which 42 per cent had made changes, compared with only 20 per cent of those claiming under the large company scheme. There was no difference between the proportion of companies who had changed their accounting procedures in order to separate out eligible costs by level of R&D spend.

Only one in ten (10 per cent) claimants had changed the way their company defined R&D since the introduction of R&D tax credits (Chart 8.1).

**Chart 8.1 Changes made to internal procedures**



Base: Respondents who had claimed R&D tax credits (419)

Of the 43 companies that had changed the way they defined R&D, 18 had seen an increase in the recorded amount of R&D activity, eight had seen a decrease in the recorded amount of R&D activity, while 15 said there had been no appreciable difference.

## 8.2 Impact on R&D spend and projects

Overall, around one in five (19 per cent) companies with a successful claim took the expected value of tax credits into account when setting their budget. Companies that successfully claimed as SMEs were the most likely to take tax credits into account, with 22 per cent doing so. In contrast, just under one in ten (9 per cent) large companies with successful claims took tax credits into account.

**Table 8.1 Whether company takes expected value of tax credits into account when setting budget**

	Total	Scheme claimed under	
		SME	Large
Base	333	238	70
	%	%	%
Yes	19	22	9
No	80	77	87
Don't know	2	*	4

Base: Respondents who had made a successful claim for R&D tax credits (333)

Of the companies who took the expected value of R&D tax credits into account when setting their budget, over half (58 per cent) had increased their R&D budget (whether by the expected value of the tax credit or less) A further 26 per cent had maintained their R&D budget when they would otherwise have cut it, while 2 per cent had reduced their R&D budget, but had reduced it by less than if there was no tax credit.

**Table 8.2 Changes to R&D budget brought about by R&D tax credit**

	Total
Base	62*
	%
Increase your R&D budget by the expected value of the tax credit	32
Increase your R&D budget, but by less than the expected value of the tax credit	26
Maintain your R&D budget instead of cutting it	26
Reduce your R&D budget but by less than if there was no tax credit	2
None of these	6
Don't know	8

Base: Successful claimants taking expected value of R&D tax credits into account (62)

\*Please note the small base size. Therefore these figures should be treated with caution

Overall, a quarter (24 per cent) of companies with a successful claim said R&D tax credits had enabled them to take on more risky R&D projects (see Table 8.3). There was no significant difference by scheme claimed under.

A third of companies with a successful claim (34 per cent) had said R&D tax credits had enabled them to take on projects that needed a longer time to pay off. This was especially the case amongst companies that had successfully claimed under the SME scheme, where 38 per cent had said so, compared with only 23 per cent of those claiming under the large company scheme.

One in ten companies with successful claims said that R&D tax credits had attracted R&D projects from abroad (10 per cent) or had prevented UK projects from migrating to overseas facilities (10 per cent). There was no significant difference by scheme claimed under.

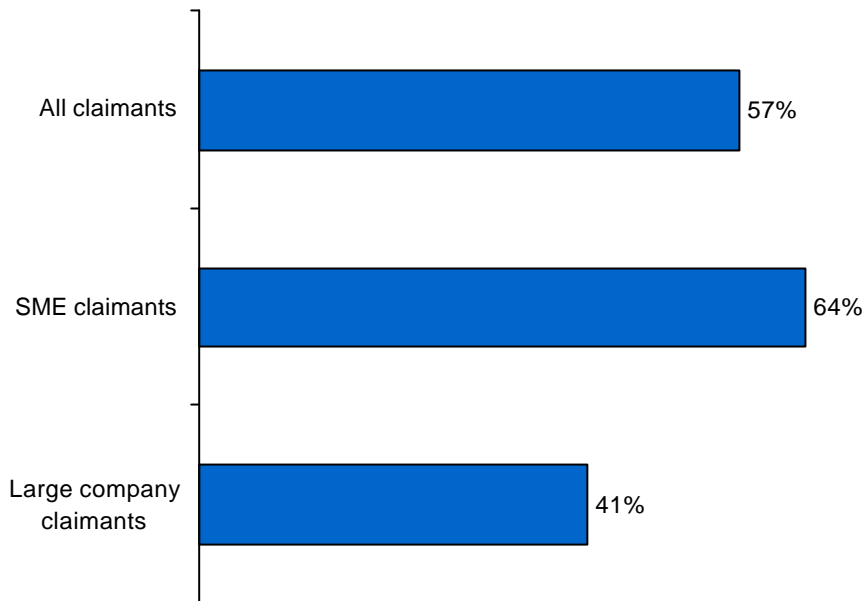
**Table 8.3 Impacts of R&D tax credits on companies with a successful claim**

	All companies with a successful claim	Scheme claimed under	
		SME	Large
Base	333	238	70
	%	%	%
Enabled more risky R&D projects	24	26	16
Enabled projects that need longer time to pay off	34	38	23
Attracted R&D projects from abroad	10	9	16
Prevented UK projects from migrating to overseas facilities	10	10	11

Base: Respondents with a successful claim (333)

### 8.3 Whether R&D tax credits act as an incentive to undertake R&D

Over half (57 per cent) of companies that had made a claim thought that R&D tax credits were an incentive to undertake further R&D. This increased to nearly two-thirds (64 per cent) of companies that claimed under the SME scheme, compared with only four in ten (41 per cent) of the companies that had claimed under the large company scheme.

**Chart 8.2** Agreeing that R&D tax credits are an incentive to undertake further R&D

Base: Respondents who had claimed R&D tax credits (419)

Claimants who thought that R&D tax credits were an incentive to undertake further R&D were asked why they thought this was the case. As Table 8.5 shows, the most frequently cited reasons were the financial awards of the tax credits (60 per cent) and the fact that they enabled them to conduct R&D that they would not be able to do otherwise (30 per cent).

**Table 8.5** Reasons for tax credits being an incentive to undertake further R&D

	Total
Base	240
	%
Financial awards of the tax credits	60
Allows us to conduct R&D that we wouldn't be able to otherwise	30
Removes/reduces risk to company	9
Aids cash flow	7
Helps small companies	7

Base: Claimants who think tax credits are an incentive to undertake further R&D (240)

This question was asked open-ended and some of the quotes illustrate these answers;

*"It provides a buffer for risk"*

*“Because it reduces the financial burden and shares some of the cost responsibility”*

*“It swings the scales a bit. It might make us undertake a project that would otherwise be too risky”*

*“It is a very good tool to reduce the burden on the company and therefore put more resources into R&D”*

As table 8.6 shows, of those claimants who thought that R&D tax credits were not an incentive for undertaking further R&D, the main reasons given were that they would be able to conduct R&D regardless of whether tax credits were available (50 per cent) and that tax credits aren't enough in themselves to encourage R&D to be undertaken (20 per cent).

**Table 8.6 Reasons for tax credits not being an incentive for undertaking further R&D**

	Total
Base	163
	%
Would conduct R&D regardless of whether tax credits were available	50
Tax credits in itself isn't enough to encourage R&D to be undertaken	20
The tax credit is a bonus (but nothing more)	13
Too complicated / difficult / takes too long to claim	3

Base: Claimants who think tax credits are not an incentive to undertake further R&D (163)

This question was also asked open-ended, and some of the quotes illustrate some of these codes:

*“As a business we need to develop our product range and tax credits are a benefit, but are not critical”*

*“If you're going to do R&D you're going to do it anyway whether or not there are tax credits”*

*“It wouldn't make any difference. The amount is quite small”*

*“Tax relief isn't a great incentive”*

## 8.4 Non-claimants' views on R&D tax credits

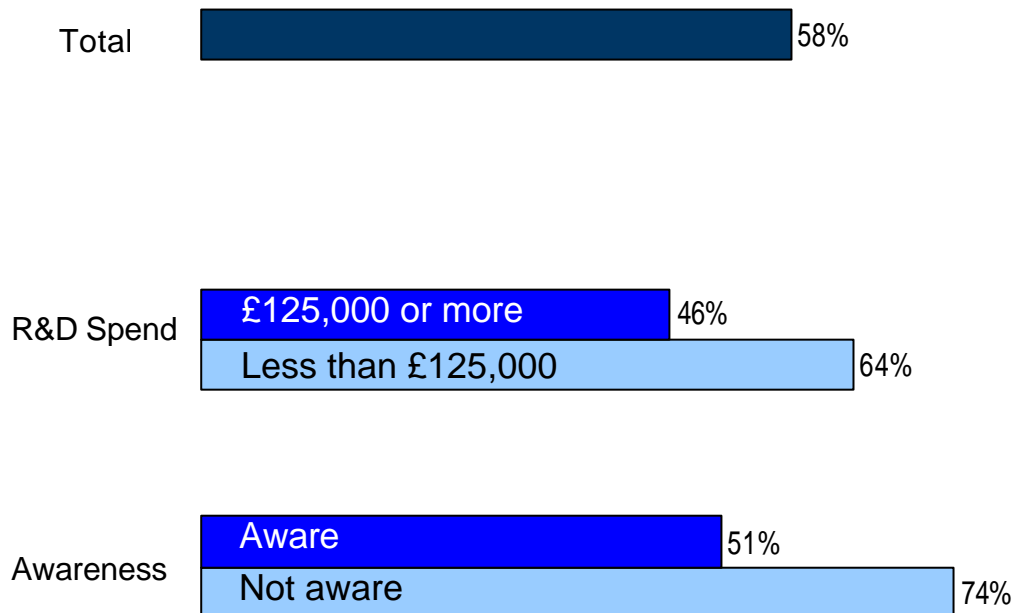
All non-claimants were asked for their opinions as to the possible beneficial effects of R&D tax credits.

Overall, around three-fifths (58 per cent) of non-claimants felt that R&D tax credits were an incentive to undertake further R&D that would not otherwise be undertaken. This

overall figure is similar to the proportion of claimants who felt that R&D tax credits were an incentive to undertake R&D.

Those who had not been aware of the tax credits prior to the survey were more likely to hold this view than respondents who knew about them (74 per cent compared to 51 per cent). Respondents in smaller companies (with fewer employees, lower turnovers and smaller R&D spends) were more likely to agree with this than those in larger companies. (74 per cent of respondents in non-claimant companies with fewer than 10 employees agreed compared to 41 per cent of those in non-claimant companies with 250 or more employees).

**Chart 8.3 Non-Claimants agreeing tax credits are an incentive to undertake further R&D**



Base: Non-claimants (549)

Those agreeing that the R&D tax credits would be an incentive were asked why. Most comments just referred to the fact that they provided a financial incentive, as illustrated by these quotes:

*“Any financial benefit has to be some incentive.”*

*“Because it is a financial incentive”*

*“Because it helps towards the cost of R&D”*

Those who did not agree that R&D tax credits would be an incentive to conduct R&D (203 respondents) were also asked why they felt that this was the case. A third (34 per cent) felt that companies would conduct R&D regardless of tax credits; 23 per cent felt that the incentive from tax credits was too small to have much of an impact; 11 per cent

said that companies should only conduct R&D if it is commercially viable and so tax credits would not impact on this fact.

Non-claimants were also asked more specific questions about the possible impact of R&D tax credits on the type of R&D that their company might do.

There was a fairly even split between non-claimants who felt that the R&D tax credits would help to increase certain types of R&D in their company and those who felt that they were unlikely to have an impact.

Those respondents who had been aware of R&D tax credits prior to the survey tended to be less optimistic about the possible impact of the tax credits on their company, as were those who worked for companies with larger R&D spends.

**Table 8.7 Views of non-claimants on possible impact of tax credits on their R&D**

	Total	Aware of R&D tax credits		Spend on R&D	
		Yes	No	Less than £125,000	£125,000 or more
Base	549	375	169	252	141
	%	%	%	%	%
How likely that R&D tax credits would enable your company to:					
undertake more risky R&D projects?					
Likely	47	43	57	51	40
Unlikely	48	54	37	47	58
undertake more projects that need a longer time to pay off?					
Likely	49	44	59	54	40
Unlikely	47	52	36	43	57

Base: Non-claimants (549)

Comparing the views of non-claimants with what impact R&D tax credits actually had had on successful claimants showed that there was some mismatch. Non-claimants were more optimistic about the potential impact of R&D tax credits than was actually the case. Around half of the non-claimants said that it was likely that R&D tax credits would enable their company to undertake more risky R&D projects, while only a quarter (24 per cent) of successful claimants said that R&D tax credits had actually enabled this. The mismatch was smaller for undertaking projects that needed a longer time to pay off – 49 per cent of non-claimants felt that this was a likely benefit of R&D tax credits, and 34 per cent of claimants said that R&D tax credits had enabled these types of projects.

Non-claimants were also asked about the potential impact of R&D tax credits on R&D undertaken in the UK. Again, there was an even split between those thinking that the R&D tax credits would have an impact, and those that felt they would not. (Table 8.8)

**Table 8.8 Views of non-claimants on possible impact of tax credits on companies in general**

	Total	Aware of R&D tax credits		Spend on R&D	
		Yes	No	Less than £125,000	£125,000 or more
Base	549	375	169	252	141
	%	%	%	%	%
How likely that R&D tax credits would enable companies to:					
attract R&D projects to the UK from abroad?					
Likely	41	35	56	44	35
Unlikely	45	51	33	43	59
prevent R&D projects at UK facilities from migrating abroad?					
Likely	40	37	49	42	37
Unlikely	44	48	37	41	56

Base: Non-claimants (549)

## Technical Appendix

### A *Details of research process*

#### *Methodology*

It was agreed that the best way to conduct this study would be a telephone survey of businesses, although other methods (such as face to face, and web or postal approaches) were considered. A telephone survey is far more cost effective than a face-to-face survey, and is more appropriate for businesses as it is less of a burden. A telephone survey also has advantages over self completion surveys in that it is possible to collect a greater amount of information (while still maintaining a respectable response rate).

#### *Sample*

The research needed to cover both companies that had claimed, or had tried to claim, the R&D tax credits since the scheme had begun, as well as companies that carry out eligible research and development but had not, for whatever reason, made a claim. Therefore, a sample of companies that conduct research and development was required.

It was decided that 1,000 registered companies that conduct Research and Development (and so are likely to be eligible for R&D tax credits) should be interviewed.

The Office of National Statistics (ONS) identifies businesses that perform R&D from the Inter-Departmental Business Register (IDBR) and also by means of a filter question every other year on the Annual Business Inquiry Survey. Around 12,000 businesses have been identified in this way, and these businesses are used as the sample for the Business Enterprise Research and Development (BERD) inquiry. The BERD inquiry surveys around 4000 of these businesses annually (400 of the businesses with the largest R&D spends in some detail, and 3600 of the other businesses in less detail).

For this survey, HMRC sought access to the BERD sample from ONS. The BERD sample was passed (with various security provisos) to BMRB. It consisted of 12,243 records.

Using this sample, it was not possible to identify in advance claimants and non-claimants. HMRC estimated that if 1,000 interviews were achieved, around 40 per cent would be with non-claimants and 60 per cent with claimants. As this would be sufficient to allow some separate analysis for these two groups, and as there was no hard data on the proportion of R&D companies that had actually claimed, it was agreed that no quotas would be set on this basis.

Another issue with using the BERD sample was that only companies registered under the Companies Act are eligible for R&D Tax credits. BERD also covers businesses that are not registered under this Act. It was thought that around 11 per cent of the BERD sample would be ineligible for this reason.

One key issue that had to be resolved was at what level (enterprise or reporting unit) companies should be approached to ask about their knowledge and experience of these tax credits. There was little information available about the level at which R&D

tax credit claims are made, and anecdotal information suggested that this would vary from company to company. It was essential for the research that we spoke to someone who was senior enough to have decision making capabilities with regard whether these tax credits should be claimed; but also someone who knew the detail of the claim. Therefore, we wanted wherever possible, to ensure that we were speaking to the relevant person at the right level within an organisation.

Where the BERD sample allowed us to group reporting units by enterprise, it was decided to approach these businesses at enterprise level rather than reporting unit level, and use the questionnaire to assess if this was, in fact, the correct level. This merging resulted in 286 records being merged into 109 enterprises. These enterprises were sent back to ONS for the enterprise level address and phone number to be added.

Thus, the sample for the survey was drawn from a population of 12,066.

The SIC codes provided on the sample were grouped as follows:

- Agriculture, hunting, forestry & fishing
- Mining and Quarrying
- Manufacturing
- Electricity, gas and water supply
- Construction
- Wholesale and retail trade
- Hotels and restaurants
- Transport, storage and communication
- Financial intermediation
- Real estate, renting and business activities
- Public administration
- Education, health and social work
- Other community, social and personal service activities

The BERD sample was stratified by this derived SIC (using modal SIC for the enterprise level companies), and ranked by total size (number of employees) within each strata. A systematic random sample of 3,750 cases was then selected. This was more than we felt we required to achieve 1,000 interviews, but a number of the businesses did not have address or telephone number details, and so we thought it would be prudent to draw a larger sample than required to allow for the fact that we would be unable to find phone numbers for all the businesses.

Of these 3,750 cases, 1,429 (38 per cent) had addresses and phone numbers as part of the BERD sample database.

The rest of the cases were sent for address and phone number look up on the basis of the postcode and business name (which were provided for all cases). A further 992 addresses and phone numbers were identified.

The remaining 1,392 cases were sent back to ONS to see if addresses and phone numbers could be identified from the IDBR. Where only addresses could be identified by ONS, these cases were resent for telephone number matching.

At the end of the process, 3,021 of the 3,750 cases (81 per cent) had a telephone number and address. The impact that this had on the issued sample is discussed later.

In order to achieve 1,000 interviews, we anticipated having to issue 2,250 pieces of sample (where we had phone numbers and addresses) on the basis that we would achieve a 50 per cent response rate among eligible companies (i.e. those that are registered under the Companies Act):

Issued sample	2,250
Ineligible as not registered (11%)	250
Eligible companies	2,000
Achieved interviews (50%)	1,000

Therefore, 2,250 businesses were selected from the 3,021 where we had a valid address and phone number. This sample was drawn in the same way as the main sample of 3,750 had been drawn: the sample was stratified by derived SIC, and ranked by size within this. A one in N sample was then selected from a random start point to give 2,250 businesses.

### ***Questionnaire design and piloting***

The design stage for this research was very important, as the project was not straightforward and there were a number of issues that it was felt should be investigated as part of a pilot study:

- Understanding of the R&D Tax Credit system and the best way to address this as part of a quantitative interview (especially among those with limited or no knowledge of the system);
- who it is best to talk to in an organisation;
- how best to gather the information required as part of a structured interview.

Given the complex nature of some of the issues involved in the survey, it was recommended that a small piece of qualitative research was conducted prior to the design and conduct of the survey. This developmental study was designed to:

- Explore the range of issues to be addressed in the survey;
- consider the language and terminology that should be used;
- identify any topics or areas that might be problematic to ask about, or for which reliable data might be more difficult to obtain;
- throw light in the ease with which the survey will be able to identify some of the key issues (e.g. the impact of the R&D tax rules on R&D spending).

In total, 20 face to face in-depth interviews were conducted in December 2004. Ten of these were with companies that had claimed R&D tax credits, and ten were with companies who carried out research and development but had not claimed. The sample for the qualitative work was taken from the DTI 2004 R&D Scoreboard (as we did not have access to BERD at this point).

The findings of the qualitative stage were presented to HMRC and DTI on 10 January 2005 (see Annex C). Some of the key findings were:

- Best person to interview would be someone at Board level (or MD of smaller companies); generally Finance Director, Tax Director, Company Secretary.
- All companies interviewed for the qualitative work were aware of the tax credits.
- Claims, however, were often made by people outside the company (e.g. external accountants), so the internal company respondent did not always know the detail of the claim process.
- There was little contact with HMRC prior to claiming – most information came from accountants or other external consultants.
- There was a lack of understanding of what counted as eligible R&D, and what costs were eligible, among both claimants and non-claimants.
- The qualitative stage picked up little obvious impact – most companies would conduct R&D anyway, but there was some feeling that the tax credits would allow companies to consider undertaking riskier or longer term R&D; or that it would allow them to sustain their existing R&D spend.
- Those not claiming tended to be unclear about what was eligible; or did not think that they were eligible; and had concerns about whether the financial rewards of claiming would outweigh the time and hassle of making the claim.

The questionnaire was designed in consultation with HMRC and DTI, and the design took into account these findings from the qualitative stage.

The initial section of the questionnaire is a screener designed to make sure that the main questionnaire is asked of the most relevant person in the company (the aim is to speak to the Finance Director or someone of this level of seniority who makes decisions about the tax affairs of the company, as the qualitative work suggested that this person was the most suitable for answering the questions we wanted to ask). For enterprise level companies (mentioned earlier), the questionnaire allowed for the interviewer to be referred to one of the reporting level companies if R&D tax credit claims were made at this level.

The questionnaire was piloted. This was primarily to test the questions and the structure of the questionnaire and to ensure that the questionnaire worked at a practical level. The pilot took place between 6 and 8 June 2005. Twenty companies (taken from the unselected part of the BERD sample) were interviewed. The pilot survey showed that the questionnaire generally worked well, but that it was too long (on average 26 minutes). Some minor cuts were made, along with a few small amendments where necessary.

The structure of the questionnaire is as follows:

- Screener (establishing right person to talk to and eligibility).
- Whether aware of R&D tax credits.
- Whether company has ever made a claim.
- Number of claims made and details of these claims.
- For those aware of the tax credits – how found out about them, and level of knowledge and understanding.
- Help or advice sought regarding R&D tax credits and satisfaction with this.
- For claimants – completing the claim, experience and satisfaction.
- Whether subject to an enquiry and views on the enquiry process.

- Attitudes to R&D tax credits, and (potential) impact of these on the company.
- Background information on company structure, size and business.

### ***The main survey***

Advance packs, which included a letter from HMRC about the research, a fact sheet about R&D tax credits, and a data sheet outlining what sort of information the interview would be collecting, were sent out to the 2,250 sampled cases a few days before the start of fieldwork.

It is common to send advance letters out prior to interviews, as these can help improve the response rate by providing prior warning and establishing the credentials of the survey. Ideally, these are sent to a named person, but in this case we did not have any specific name, so the pack was sent to the Finance Director. As well as sending a letter, businesses were also sent a fact sheet about the R&D tax credits. This was primarily to provide some information about tax credits to those companies that were not aware of them so that they could answer questions about the potential benefits of such tax credits, and to allow them to assess whether they might be eligible for such tax credits. The data sheet that was sent provided some pre-warning of the types of question that we would be asking so that respondents could look up some of the financial information in advance, if necessary.

The telephone interviewers working on the survey were briefed in person by one of the researchers on the project. This briefing covered information about tax credits; who we wanted to speak to and how to get hold of this person; the importance of achieving a good response rate and the questionnaire. Main fieldwork started on 23 June 2005.

With fieldwork underway, we found that larger numbers of companies than expected were ineligible to take part in the survey. Many of the companies claimed that they did not do any Research and Development (which was an early question in the questionnaire), and so the interview was terminated. As the sample had come from BERD, we had assumed that it would be rare for a business to conduct no research and development, and so had not taken into account any ineligibility for this reason.

This large number of ineligible numbers meant that we needed to issue more sample in order to achieve our target of 1,000 interviews. In total, 348 extra pieces of sample were issued. All of these were sent the same advance pack as the original sample before being contacted.

In total, 2,598 pieces of sample were issued to interviewers. Five per cent of these could not be contacted as there was some problem with the phone number (e.g. it was unobtainable, the business was not known at the number, the number was not valid etc). All bad numbers were passed back to researchers who attempted to check the number using other sources; any new numbers found were re-issued to the telephone unit.

Of those that were contactable (2,470), 22 per cent claimed that they did not do any research and development. A further 1 per cent were not eligible as they were not registered under the Companies Act (respondents were only asked this question if they said they did conduct research and development). On average, the questionnaire took 15 minutes (but this included those interviews that terminated after the first few questions).

Of those contactable and eligible, 51 per cent were interviewed: a response rate of 51 per cent.

### ***Response rates***

<b>Issued sample</b>	2598	100%		
Problem numbers	128	5%		
<b>Contactable sample</b>	2470	95%	100%	
Total ineligible:	580	22%	23%	
No R&D	563	22%	23%	
Not registered	17	1%	1%	
<b>Contactable and eligible</b>	1890	73%	77%	100%
Non response (total):	922	35%	37%	49%
No contact	91	4%	4%	5%
Refusal	471	18%	19%	25%
Abandoned interview	56	2%	2%	3%
Respondent unavailable during fieldwork	215	8%	9%	11%
20+ unsuccessful calls	18	1%	1%	1%
Contact, but no interview	64	2%	3%	3%
Other non response	7	*	*	*
<b>Achieved interviews</b>	968	37%	39%	51%

### ***Comparison of achieved sample with BERD sample for SIC***

All businesses on the BERD sample provided had a five digit SIC 91 code (Standard Industrial Classification). These were grouped into the standard 13 high level industrial groups, to make analysis easier.

The table below shows the SIC codes for the original BERD sample (where businesses were merged by enterprise, we took the modal SIC). The selected sample has the same SIC profile as the BERD sample as we stratified by SIC. The table also shows the SIC profile for the sample that was issued to the telephone centre (i.e. that where we had telephone numbers), the companies that were ineligible as they claimed not to conduct any R&D and the achieved sample.

SIC code	BERD sample (12066)	Issued sample (2598)	Did not conduct R&D (563)	Achieved sample (968)
2: Mining and quarrying	1%	1%	1%	1%
3: Manufacturing	46%	55%	50%	58%
4: Electricity, gas, water supply	*	*	-	*
5: Construction	2%	2%	1%	1%
6: Wholesale and retail trade	7%	7%	11%	5%
7: Hotels and restaurants	*	*	*	-
8: Transport and communications	1%	1%	4%	*
9: Financial intermediation	1%	1%	1%	1%
10: Business activities	39%	30%	29%	31%
12: Education, health and social work	1%	1%	1%	1%
13: Other social and community	3%	2%	2%	2%

(No businesses were assigned to SIC 1 or 11)

As this table shows, the issued sample under-represented businesses in the Business Activity sector, and over-represented businesses in the manufacturing sector. This is a function of the fact that phone numbers could not be found for all businesses, and seems to have disproportionately affected those in the business activity sector.

There were also differences by sector for eligibility, as the figures above show. Manufacturing companies were more likely to be eligible than those doing business activities, and companies in wholesale and retail trade and transport and communications were most likely to say that they did not do R&D. However, the achieved sample matched the issued sample fairly closely.

The fact that there were marked differences by sector in terms of obtaining contact details for businesses suggests that the sample is not perfect. SIC is the only useable data we have for those businesses that we did not interview, so it is not possible to look at other variables. However, it is likely that there will be other biases caused by the lack of telephone numbers.

Often weighting is used to correct for non-response issues of this kind. However, in this situation we do not know what the population of companies that undertake R&D (particularly, eligible R&D) looks like. A substantial proportion of the BERD sample claimed not to do R&D, and it is likely that many of those that refused the survey may have done so for this reason. It is therefore difficult to use the BERD sample as the ideal population to weight to, as it does not represent the eligible population. It is also the case that SIC does not, from analysis of the data, appear to be a key variable in determining claiming behaviour or views on the R&D tax credit. Ideally, the variables used for weighting should be more discriminating.

Therefore, we have left the sample data unweighted. However, although the results will be indicative of take up of R&D tax credits and the views of companies that do

R&D, it should be borne in mind that the sample is imperfect, and that some minor biases may have crept in that we can not measure.

## **B Materials**

**Advance letter**

**Fact sheet**

**Data sheet**

**Questionnaire**

ADVANCE LETTER (ON HMRC HEADED PAPER)

Dear Sir/Madam

Her Majesty's Revenue and Customs (HMRC - the name of the recently merged Inland Revenue and Customs and Excise) are currently conducting research into UK companies' awareness, use and experience of the Research & Development Tax Credits Scheme. To help us to do this, we have asked an independent research company, BMRB Social Research, to undertake the research on our behalf. Please be assured that this is genuine research commissioned by HMRC to help look at the Research & Development Tax Credits Scheme.

An interviewer working on behalf of BMRB will phone to you to conduct the survey. It will be conducted over the phone and should last for about 20 minutes. Everything you tell them will, of course, be in complete confidence. No information that could identify you will be passed on to HMRC or anyone else.

BMRB are interested in hearing the views of a range of companies performing R&D and would like to speak to eligible companies regardless of whether they have made a claim for R&D Tax Credits or not.

Whatever you decide, any dealings you have with the Inland Revenue will not be affected in any way either now or in the future. If you have any questions about the research, you may ask the interviewer when they contact you or ring Stephen Pearson at BMRB (telephone number) or Daniel Alford at HMRC on (telephone number).

In addition to this letter, please find enclosed a factsheet which briefly outlines the R&D Tax Credits scheme; also included is a datasheet outlining the areas that will be covered in the interview. I do hope that you will take part in this important research study.

Yours sincerely



**Daniel Alford**

**Research Officer**

## Research and Development Tax Credits Fact Sheet

Companies that conduct research and development (R&D) may be entitled to claim Tax Credits. R&D Tax Credits stimulate investment in R&D. They provide financial recognition that there are returns to the wider economy from a company undertaking R&D over and above the returns to the company itself.

R&D Tax Credits also directly support the undertaking of R&D by reducing the real cost of R&D and by providing funds to loss making companies when cash flow may be difficult. Between April 2000 and October 2004 some 13,000 claims have been made for R&D Tax Credits, and over £700m has been paid out as a result.

The purpose of this fact sheet is to outline the R&D tax credit scheme. It is not intended to act as a comprehensive guide to the scheme. To find out more, and to see if your company can benefit, please refer to the section headed "Further Information", overleaf.

### **The definition of R&D for tax purposes is as follows:**

- R&D for tax purposes takes place when a project seeks to achieve an "advance in science or technology", regardless of whether this is actually achieved or not.
- Activities which directly contribute to achieving this advance in science or technology and/or the resolving of scientific or technological challenges are R&D.
- An "advance in science or technology" includes
  - Creating new knowledge or capability in a field of science or technology (e.g. the properties of a new chemical compound).
  - Creating a new process, material, device, product or service (e.g. a new technique for casting a particular metal).
  - Improving an existing process, material, device, product or service through making scientific or technological changes (e.g. a more effective cleaning product).
  - Duplicating the effect of an existing process, material, device, product or service using new or improved science or technology (e.g. developing new technology to deliver an existing service more efficiently).
- R&D can therefore be aimed at cost improvements, improved function, or any other objectives which are delivered by overcoming scientific or technological challenges.
- Developing a product that has already been developed by another company but which is a trade secret counts as R&D.

## **The following does NOT count as R&D for tax purposes:**

- Minor or routine improvement of existing products or technologies is not R&D because it does not involve overcoming scientific or technological challenges.
- The use of technology or science in order to create or develop a product is not in itself necessarily an advance in science or technology.
- Work in the arts, humanities, social sciences and economics do not count as R&D for tax purposes.
- Developing a product that is new to a company is not enough for work to be R&D – it must be an “advance in science or technology” and involve overcoming scientific or technological challenges.
- Creating or developing a product which someone with knowledge in that field would be reasonably expected to arrive at is not R&D.

### **How to qualify for R&D Tax Credits**

- If you have qualifying expenditure over £10,000 per annum on R&D (as defined above), then you may be able to claim Tax Credits in your corporation tax return.
- Only limited companies liable to corporation tax can claim.
- Certain costs incurred as a direct result of R&D qualify for Tax Credits, i.e. expenditure on employees, materials used in the R&D process, the cost of employing external staff and any R&D sub-contracted to others are all valid.
- Expenditure on external staff and sub-contracted R&D qualify at a reduced rate.
- Spending on computer software, power, fuel and water qualify too. Expenditure on buildings, machinery and other capital items are excluded from the scheme.

### **Small and large companies**

There are different schemes according to the size of company involved – either a SME or large company. SMEs are broadly classified as those with under 250 employees and either an annual turnover below €50million (£34 million) or a balance sheet total below €43million (£30 million), and which are not part of a larger enterprise that would fail these tests. Any company not meeting this definition is a large company. The main differences between the two schemes are outlined below.

#### **SME company scheme**

- Qualifying expenditure on R&D can be deducted at a rate of 150%.
- SMEs not in profit can get a cash payment of up to 24p per £1 of qualifying expenditure instead of a deduction from taxable profits.
- Can claim for expenditure on R&D that they sub-contract to others.
- Cannot claim for contributions to independent research by universities or charities.
- SMEs must own the intellectual property arising out of the R&D.

- An SME not qualifying for the SME scheme can sometimes get the large company credit instead.

### **Large companies**

- Qualifying expenditure on R&D can be deducted at a rate of 125%.
- No payable credit is available.
- Companies can only claim for expenditure on R&D they carry out themselves, unless they sub-contract R&D to universities or charities.
- Companies *can* claim for contributions to independent research.
- Companies need not own the intellectual property arising out of the R&D.

### **Further information**

- For a full explanation, see <http://www.hmrc.gov.uk/randd/index.htm>
- You can discuss a possible claim in advance with your tax inspector.
- Professional advisers such as your accountant can help you make a claim.
- Trade associations and professional networks may help put you in touch with other companies with experience of claiming R&D Tax Credits.

### **Other R&D and innovation support**

If you are involved in R&D you may also be able to claim 100% capital allowances for your R&D spending. The Business Link [Business Support Directory](http://www.businesslink.gov.uk) at [www.businesslink.gov.uk](http://www.businesslink.gov.uk) has information on Government support, including grants, for innovation and science.



## Survey of Inland Revenue Research & Development Tax Credits

This sheet outlines the sort of information that the interview will cover. We are interested in finding out your views and experiences of the Inland Revenue (now HM Revenue and Customs) R&D Tax Credit scheme. Even if you have limited knowledge, or even no knowledge of the scheme, we would still like to speak to you.

It will be useful for us to collect certain pieces of background information about the company during the interview. Rather than just asking for this during the interview, we thought it would be useful to give you some advance notice.

### **If your company has made a claim for R&D Tax Credits, then we will be asking about:**

- The number of R & D Tax Credit claims made and your experience of claiming.
- The size of the (most recent) claim and the amount of R&D you were claiming for.
- Whether you received the R&D Tax Credit by payment to the company or as a reduction in the company's Corporation Tax bill.

### **If your company undertakes R&D but has not (yet) made a claim, we will be asking about:**

- Whether your company is eligible to claim under the scheme.
- If your company is eligible, the reasons why you haven't claimed.
- Whether you are likely to make a claim in the future.
- The possible impact that R&D Tax Credits could have on companies that do R&D

### **To allow us to analyse the data by the type of company, we would like to know some background information for all companies:**

- Whether your company is the ultimate holding company of a group of companies.
- Whether your company is a single independent company, part of a number of companies within a larger UK group or a UK based company that is part of a larger foreign company.
- Whether the company owns or controls any subsidiary companies.
- Where, geographically, R&D is undertaken.
- The size of the company claiming R&D Tax Credits:
  - Total number of staff employed by the company
  - Total turnover of the company for the most recent year figures are available
  - Whether your company made a profit or a loss in the most recent year figures are available

Whether your company is operating as a stand-alone company within the UK, or is part of a group of companies based in the UK or even outside of the UK, only the UK figures for your particular company are of relevance for the purposes of this survey.

We would just like to reiterate that the interview will be confidential and anonymous; no information that could identify you or your company will be passed on to HM Revenue and Customs (formerly the Inland Revenue).

**IR R&D Tax Credits - FINAL QUESTIONNAIRE**

IRcla2 - JN: 45103059 - 22 Jun 2005

Quanquest v2.1 - QAL v2.2bmr13 - CATI

IRcla2 Good morning/afternoon, my name is ..... and I am calling on behalf of BMRB Social Research.

The Inland Revenue is interested in finding out about companies views of the Research and Development Tax Credit scheme. We sent a letter to your finance director with some information about this research.

Please could I speak to your finance director, or the person with overall responsibility for this company's tax affairs.

**QUANCEPT ITEM:**

---

**Good morning/afternoon, my name is ..... and I am calling on behalf of BMRB Social Research.**

**The Inland Revenue is interested in finding out about companies views of the Research and Development Tax Credit scheme. We would just like to ask about your awareness and understanding of this scheme. To start off I just have 5 minutes of questions to see if you are the best person to speak to, and the whole interview will only take about 15-20 minutes.**

**Anything that you tell us will be treated in the strictest confidence. Any information you give me will not be passed on to anyone, including the Inland Revenue, in such a way that you or your organisation will be identified.**

**EXPLAIN FROM NOW ON THAT YOU WILL REFER TO "R&D" RATHER THAN "RESEARCH AND DEVELOPMENT"**

---

**QUANCEPT ITEM:**

---

**A. Awareness of tax credits and whether ever claimed**

---

Qrespon Can I just check, are you the person that is responsible for overseeing your company's tax affairs?

Yes	1	(730)
No	2	
Don't know/not sure	3	

---

**IF Qrespon = No  
THEN ASK: QKnoWho**

---

QKnoWho Do you know who this person is?

Yes	1	(731)
No	2	
Don't Know	Y	

---

**IF QKnoWho = Yes  
THEN ASK: QAreAv**

---

QAreAvAre they available?

Yes	1	(732)
No	2	
Don't Know	Y	

---

**IF QAreAv = Yes  
THEN ASK: QPAUSE**

---

**Good morning/afternoon, my name is ..... and I am calling on behalf of BMRB International.**

**The Inland Revenue is interested in finding out about companies views of the Research and Development Tax Credit scheme. We have selected your company at random from those that we believe do conduct some research and development, and we would just like to ask about your awareness and understanding of this scheme. To start off I just have 5 minutes of questions to see if you are the best person to speak to, and the whole interview will only take about 15-20 minutes.**

**Anything that you tell us will be treated in the strictest confidence. Any information you give me will not be passed on to anyone, including the Inland Revenue, in such a way that you or your organisation will be identified.**

**EXPLAIN FROM NOW ON THAT YOU WILL REFER TO "R&D" RATHER THAN "RESEARCH AND DEVELOPMENT"**

---

QPAUSE INTERVIEWER: CODE 1 TO RETURN TO FIRST QUESTION

proceed	1	(733)
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---

**QUANCEPT ITEM:**

**End of Filter Iavail**

**End of Filter IknowWh**

---

TZterm8

**IF QKnoWho = No - Termination with data (Quit)**

In that case, I have no further questions for you.

Thanks for your time.

---

**IF QAreAv = No  
THEN ASK: QTakeD**

---

QTakeD      Can I take their details?

Yes	1
No	2
Don't Know	Y

(738)

---

**QUANCEPT ITEM:**

---

**QUANCEPT ITEM:**

**End of Filter INotAv**

---

ZTerm7

**IF QTakeD = No - Termination with data (Quit)**

In that case, I haven't got anything more to ask of you.

Thanks for your time.

**End of Filter Inotper**

---

QcondRD Does your company conduct any research and development (whether or not this is eligible for tax credits)?

Yes	1	(739)
No	2	
Not sure	3	

---

Zterm1

**IF QcondRD = No - Termination with data (Quit)**

In that case we have no further questions for you.

Thank you for your time.

---

Qcomact Are you registered under the Companies Act?

Yes	1	(740)
No	2	
Not sure	3	

---

Zterm2

**IF Qcomact = No - Termination with data (Quit)**

In that case I have no further questions to ask of you.

Thank you for your time.

---

Qaware Before we contacted you about this survey, were you personally aware of R&D Tax Credits?

Yes	1	(741)
No	2	
Don't Know	Y	

---

**QUANCEPT ITEM:**

---

Qclaim As far as you are aware, has your company ever made a claim for R&D tax credits? This could be at Head Office level or could be a claim made by any of your establishments or reporting units. (It doesn't matter if the claim was successful or not).

Yes, claim made	1	(742)
No	2	
Don't Know	Y	

---

**IF Qclaim = No OR Qclaim = Don't Know  
THEN ASK: Qsure**

---

Qsure Can I just check, are you sure that no claim has been made at any level of your company, or is it possible that you don't know about a claim that may have been made?

Yes, I am sure	1	(743)
No, I am not sure	2	

---

**IF Qsure = No, I am not sure OR Qclaim = Don't Know  
THEN ASK: Qapproa**

---

Qapproa Would it be okay if we approached one of your establishments (that we would select at random from our records) to ask them if they have made a claim?

Yes	1	(744)
No	2	

---

Zterm3

**IF Qapproa = Yes - Termination with data (Quit)**

In that case I have no further questions for you.

Thank you for your time.

---

Zterm4

**IF Qapproa = No - Termination with data (Quit)**

In that case I have no further questions to ask of you.

Thank you for your time.

**End of Filter Inosure**

**End of Filter Inoclai**

---

**QUANCEPT ITEM:**

---

**QUANCEPT ITEM:**

---

Qclaim2 As far as you are aware, has your company ever made a claim for R&D tax credits. (It doesn't matter if claim was successful or not.)

Yes, have made a claim	1	(745)
No, no claim made	2	
Not sure	3	

---

**IF Qclaim2 = Not sure  
THEN ASK: Qanyone**

---

Qanyone Is there anyone else we could talk to who might know whether or not your company has made a claim for R&D tax credits?

Yes	1	(746)
No	2	

---

Zterm5

**IF Qanyone = No - Termination with data (Quit)**

In that case I have no further questions to ask of you.

Thank you for your time.

---

**QUANCEPT ITEM:**

---

**QUANCEPT ITEM:**

---

**QUANCEPT ITEM:**

**End of Filter lunsure**

---

**IF Qclaim = Yes, claim made OR Qclaim2 = Yes, have made a claim  
THEN ASK: Qholdin**

**Qholdin** Is your company the ultimate holding company of a group of companies (Note: the holding company is the highest controlling company within the group)?

Yes	1	(747)
No	2	
Don't Know	Y	

---

**IF Qholdin = Yes**

**End of Filter Iholdi2**

---

**IF Qholdin = No OR Qholdin = Don't Know  
THEN ASK: Qstruct**

---

**Qstruct** Is your company one of a number of companies within a larger UK group, a single independent company, or a UK based company that is part of a larger foreign company?

One of a number of companies within a larger UK group	1	(748)
Single independent company not part of a larger group	2	
A UK based company part of a larger foreign company	3	
Don't Know	Y	
Refused	Z	

---

**IF Qstruct = One of a number of companies within a larger UK group OR Qstruct = Single independent company not part of a larger group OR Qstruct = A UK based company part of a larger foreign company  
THEN ASK: Qsubsid**

---

**Qsubsid** Does your company own or control any subsidiary companies or establishments?

Yes - in the UK	1	(749)
Yes - outside the UK	2	
No	3	
Don't Know	Y	

**End of Filter Istruct**

**End of Filter Inohold**

---

**IF Qholdin = Yes  
THEN ASK: Qlevel**

---

Qlevel Are the research and development tax credits claimed at this level by the holding company, or are they claimed by one or more of the companies in your group?(We need to talk to someone who knows about the claims that have been made, and the impact they have had, so we just want to check the best person).

Claimed at holding company level	1	(750)
Claimed by companies in group	2	
Both	3	
Don't Know	Y	

---

**IF Qlevel = Claimed by companies in group  
THEN ASK: Qappro2, Qappro3**

---

**QUANCEPT ITEM:**

---

Qappro2 Would it be OK if we approached one of the companies in your group (that we would select at random from our records) to ask them if they have made a claim?

Yes	1	(751)
No	2	

---

**QUANCEPT ITEM:**

---

**QUANCEPT ITEM:**

---

Qappro3 Would it be OK if we approached one of the companies in your group that has made a claim? Would you be able to give us the contact details for that company?

Yes	1	(752)
No	2	

---

**QUANCEPT ITEM:**

---

**QUANCEPT ITEM:**

**End of Filter lothcom**

**End of Filter lholdin**

---

**IF Qlevel = Claimed at holding company level OR Qlevel = Both  
THEN ASK: Qknowle**

---

Qknowle      Do you have some knowledge of the claims that have been made by this company?

Yes	1	(753)
No	2	

---

**IF Qknowle = No  
THEN ASK: Qelse**

---

Qelse      Is there someone else we could speak to who would have some knowledge of the Research and Development tax credit claims that this company has made?

Yes	1	(754)
No	2	

---

Zterm6

**IF Qelse = No - Termination with data (Quit)**

In that case I have no further questions to ask of you.

Thank you for your time.

**End of Filter Inoknow**

**End of Filter lholdco**

**End of Filter lclaima**

**IF Qclaim = Yes, claim made OR Qclaim2 = Yes, have made a claim  
THEN ASK: Qnumcla**

---

**B Claimants - number of claims and success**

---

Qnumcla How many claims has your company made in total?

(755 - 756)

Numeric Range \_\_\_\_\_  
Don't Know Y

(755)

Permitted Range  
1 TO 1 (One) , 2 TO 99 (More than one)

---

**IF Qnumcla = One  
THEN ASK: Qsuccla, Qyearcl**

---

Qsuccla Was this claim successful?

Yes 1  
No 2  
Still awaiting  
outcome 3  
Don't Know Y

(757)

---

Qyearcl In which year did you make this claim?

Note: this is the year the claim was submitted, not the year it was claiming for

1999 or earlier 1  
2000 2  
2001 3  
2002 4  
2003 5  
2004 6  
2005 7  
Not sure 8

(758)

---

**End of Filter lonecla**

---

**IF Qnumcla = More than one  
THEN ASK: Qnumsuc**

Qnumsuc How many of these claims were successful?

WRITE IN:

(759 - 760)

Numeric Range \_\_\_\_\_  
 Don't Know Y

(759)

Permitted Range  
 0 TO 0 (None) , 1 TO 99 (1-99)

**End of Filter Imorone**

---

**IF Qnumcla = Don't Know OR Qnumsuc = Don't Know  
 THEN ASK: Qsucces**

---

Qsucces As far as you know, has your company made a successful claim for R&D tax credits?

Yes 1  
 No, claim(s) all  
 unsuccessful 2  
 Don't Know Y

(761)

**End of Filter Idonkno**

---

**IF Qnumcla = More than one  
 THEN ASK: Qoutcom**

---

Qoutcom What was the outcome of your company's &TempVa2& claim?

Still awaiting  
 result/decision 1  
 claim was  
 unsuccessful 2  
 claim was  
 successful 3

(762)

**End of Filter Ionemor**

---

**IF Qnumcla = More than one**

**End of Filter Imorcla**

Qscheme &TempVa1& did you claim under the large company scheme or the scheme for SMEs?

IF NECESSARY, EXPLAIN THAT SME REFERS TO 'SMALL AND MEDIUM ENTERPRISES'

Large company scheme	1	(763)
SME scheme	2	
Don't know which	3	

Qsizecl &TempVa1& what was the size of the claim - roughly how much R&D spend were you claiming for?  
(Please let me know the size of the actual claim itself, not how much your company was awarded).

IF NECESSARY, SAY YOU NEED TO KNOW THE TOTAL R&D SPEND, NOT THE PERCENTAGE A COMPANY CAN RECLAIM

WRITE IN VALUE

(764 - 771)

Numeric Range _____		
Refused	Z	(764)

Permitted Range  
1 TO 99999999 (Numeric Range)

**IF Qoutcom = claim was successful OR Qsuccla = Yes  
THEN ASK: Qfullam**

Qfullam Did you receive tax credit on the full amount you claimed for?

Yes	1	(772)
No - less than claimed for	2	
Not sure	3	

**IF Qfullam = No - less than claimed for  
THEN ASK: Qexplan, Qamount**

Qexplan      What explanation were you given for not getting the full amount claimed?

DO NOT READ OUT. PROBE FULLY AND CODE ALL THAT APPLY.

Some work was not R&D	1	(773)
Some expenses we claimed were not eligible	2	
Didn't get an explanation	3	
Not sure/DK	4	
Other	0	
Other specify.....	(774 - 777)	

---

Qamount      How much tax credit did you receive?

(808 - 815)

Numeric Range \_\_\_\_\_  
 Refused Z (808)

Permitted Range  
 1 TO 99999999 (Numeric Range)

**End of Filter llesscl**

---

Qformaw      And in what form were you awarded the tax credit? Was it...

READ OUT

Cash payment	1	(816)
Deduction in corporation tax bill	2	
Both cash payment and deduction	3	
Don't Know	Y	

---

**IF Qformaw = Cash payment AND Qscheme = SME scheme  
 THEN ASK: Qcashpa**

---

Qcashpa      Was the cash payment 24% of the qualifying R&D expenditure?

Yes	1	(817)
No	2	
Don't Know/ Not sure	Y	

**End of Filter Icashpa**

**End of Filter Isucces**

---

**IF Qoutcom = claim was unsuccessful OR Qsuccla = No  
THEN ASK: Qunsucc**

---

Qunsucc	Do you know why your company's &TempVa2& claim was unsuccessful?			
		Yes	1	(818)
		No	2	
		Don't Know	Y	

---

**IF Qunsucc = Yes  
THEN ASK: Qwhyuns**

---

Qwhyuns	Why was your claim unsuccessful?			
	READ OUT AND CODE ALL THAT APPLY			
		The type of R&D undertaken is not eligible for tax credits	1	(819)
		The amount of money spent on R&D is not eligible for tax credits	2	
		Don't Know	Y	
		Other	0	
		Other specify.....(820 - 823)		

---

**End of Filter Ireauns**

**End of Filter lunsucc**

---

**IF Qsuccla = No OR Qnumsuc = None OR Qsucces = No, claim(s) all unsuccessful  
THEN ASK: Qreappl**

---

Qreappl How likely is it that your company will re-apply for R&D tax credits in the next few years? Is it...

READ OUT

Very Likely	1	(824)
Fairly likely	2	
Not very Likely or	3	
Not at all likely	4	

**End of Filter lalluns**

**End of Filter lclaim**

---

**IF Qaware = Yes**  
**THEN ASK: Qfindou, Qhelp**

---

**C: ALL THOSE AWARE OF THE TAX CREDIT SCHEME**

Qfindou How did you first find out about R&D tax credits?

DO NOT READ OUT. PROBE FULLY

CODE ALL THAT APPLY

From a bank	1	(825)
From internal colleagues	2	
From external accountant/auditor	3	
From payroll service	4	
Inland Revenue Website	5	
Inland Revenue Enquiry Centre (IREC)	6	
General Inland Revenue helpline	7	
One to one consultations with an Inland Revenue adviser	8	
Workshops organised by the Inland Revenue	9	
Inland Revenue leaflets or booklets	0	(826)
DTI Small business service/Business Links	1	
Trade body or association	2	
From the press generally	3	
Other	0	(825)
Other specify.....(827 - 830)		

Qhelp Have you at any point sought help or information from the Inland Revenue to do with R&D tax credits?

Yes	1	(831)
No	2	
Don't Know	Y	

**IF Qhelp = Yes  
THEN ASK: Qinform, Qhelp2**

Qinform Did you seek help or information from any of the following?

READ OUT AND CODE ALL THAT APPLY

The Inland Revenue website	1	(832)
Inland Revenue booklets or leaflets	2	
Inland Revenue helpline	3	
Discussion with IR advisor/taxman	4	
Don't Know	Y	
None of these	X	
Other	0	
Other specify.....	(833 - 836)	

---

Qhelp2 Thinking about your most recent contact with the Inland Revenue, did you get the help or information you were asking for?

PROBE FOR DETAIL

Yes - all I needed	1	(837)
Yes - some of what I needed	2	
No	3	
Don't Know	Y	

---

**IF Qhelp2 = Yes - all I needed OR Qhelp2 = Yes - some of what I needed THEN ASK: Deasy**

**End of Filter lhelp2**

---

Qgethel And did you get the help or information you were looking for the first time you contacted the Inland Revenue about this issue or did you need further contact?

Got information at first attempt	1	(839)
Needed further contact	2	
Did not receive help or information required at all	3	
Don't Know	Y	

Qtypinf Were you seeking help or information on any of the following:

READ OUT AND CODE ALL THAT APPLY

Definitions of what types of R&D qualify for tax credits	1	(840)
What counts as eligible costs	2	
General information about the application process	3	
Don't Know	Y	
Other	0	
Other specify.....	(841 - 844)	

---

**IF Qinform = Inland Revenue helpline OR Qinform = Discussion with IR advisor/taxman OR Qinform = Other THEN ASK: Dhelper**

**End of Filter lperson**

---

**IF Qclaim = Yes, claim made OR Qclaim2 = Yes, have made a claim THEN ASK: Qpoint**

---

Qpoint At what point(s) in your claim did you seek advice from the Inland Revenue?

READ OUT AND CODE ALL THAT APPLY

Before deciding whether to claim	1	(847)
When putting together your claim	2	
Some other time	3	
Don't Know	Y	

**End of Filter lsought**

**End of Filter lhelp**

Qothadv      And have you sought advice on R&D tax credits from any other source or sources, other than the IR?

Yes	1	(848)
No	2	
Don't Know	Y	

---

**IF Qothadv = Yes  
THEN ASK: Qsouadv, Qwhatad**

---

Qsouadv      Who did you seek advice from?

DO NOT READ OUT. CODE ALL THAT APPLY

DTI (including small business service or business links)	1	(849)
Internal Staff (e.g. R&D colleagues, internal accountants)	2	
External business advisers (consultants, accountants)	3	
External R&D/technology advisers (e.g. contract R&D providers)	4	
Sources in another company (suppliers, customers)	5	
Trade/Industry body	6	
Don't Know	Y	
Other	0	
Other specify.....	(850 - 853)	

Qwhatad Were you seeking advice on any of the following:

READ OUT AND CODE ALL THAT APPLY

Definitions of what types of R&D qualify for tax credits	1	(854)
What the eligible costs were	2	
General information about the application process	3	
Don't Know	Y	
Other	0	
Other specify.....	(855 - 858)	

End of Filter lothadv

---

I'd now just like to ask a few questions about how well you feel you understand the R&D tax credits scheme.

---

Qunders In general, how good an understanding of the R&D tax credits scheme do you feel you have?

READ OUT

Very good	1	(859)
Fairly good	2	
Not very good	3	
Not at all good	4	
Don't Know	Y	

Qwell How well do you feel you understand what qualifies as R&D for tax credit purposes?

READ OUT

Very well	1	(860)
Fairly well	2	
Not very well	3	
Not at all well	4	
Don't Know	Y	

Qeligib And how well do you feel you understand what actual R&D costs are eligible for the tax credit?

READ OUT

Very well	1	(861)
Fairly well	2	
Not very well	3	
Not at all well	4	
Don't Know	Y	

End of Filter laware

---

**IF Qclaim = Yes, claim made OR Qclaim2 = Yes, have made a claim  
THEN ASK: Qextern, Qperinv**

---

**D: CLAIMANTS - The application process**

**I'd now just like to ask a few questions about actually applying for the tax credits.**

---

Qextern Some companies ask their external accountants to complete the R&D tax claim on their behalf. Can I just check, &TempVa1& did you have any external help in submitting the claim, or was all the work done internally?

All of claim done externally	1	(862)
Mixture of internal work and external help	2	
All done internally	3	
Don't Know	Y	

---

Qperinv And how much personal involvement did you have in completing the &TempVa2& R&D tax claim - please consider both gathering the appropriate information, and completing the actual form.

READ OUT

A lot of involvement	1	(863)
Some involvement	2	
Very little involvement	3	
No involvement at all	4	
Don't Know	Y	

---

**IF ( Qnumcla = More than one ) AND ( Qperinv = Very little involvement OR Qperinv = No involvement at all )  
THEN ASK: Qearcla**

---

Qearcla Can I just check, did you have more involvement in your earlier claims or have you always had &Qperinv&?

More involvement in earlier claims	1	(864)
Same involvement in earlier claims	2	
Less involvement in earlier cleims	3	
Not at company for earlier claims	4	
Don't Know	Y	

**End of Filter linvcla**

---

**IF Qperinv = Very little involvement OR Qperinv = No involvement at all**

---

**Although you've had limited involvement in the process, I would still like your impressions as to how easy or difficult aspects of the application process are. If you really don't know, please say so.**

**End of Filter Inoinv**

---

Qdecide &TempVa1&. When it came to deciding whether the project, or projects, counted as qualifying R&D, was this...

READ OUT

Very easy	1	(865)
Fairly easy	2	
Not very easy	3	
Not at all easy	4	
Don't Know	Y	

Qelicos Again, &TempVa1& when it came to working out what counted as eligible costs incurred on those R&D projects, was this...

READ OUT

Very easy	1	(866)
Fairly easy	2	
Not very easy	3	
Not at all easy	4	
Don't Know	Y	

---

Qsepara And, overall, how easy was it to separate out these eligible costs from your other non-eligible or general costs?

READ OUT

Very easy	1	(867)
Fairly easy	2	
Not very easy	3	
Not at all easy	4	
Don't Know	Y	

---

Qchapla Has your company made any changes to its accounting procedures to help separate out costs that are eligible for tax credits from other costs?

Yes	1	(868)
No	2	
Planning to in the future	3	
Don't Know	Y	

---

QCT600 And how easy is it to fill in the information required on the Corporation Tax Self Assessment Form (form CT600) to claim the R&D tax credits?

READ OUT

Very easy	1	(869)
Fairly easy	2	
Not very easy	3	
Not at all easy	4	
Don't Know	Y	

---

**IF Qnumcla = More than one  
THEN ASK: Qdiffic**

Qdiffic You said earlier that your company had made more than one claim for R&D Tax Credits. &TempVa1&, was this more difficult to do, easier to do, or the same as earlier claims?

More difficult	1	(870)
Easier	2	
The same	3	
Don't Know	Y	

---

**IF Qdiffic = Easier**  
**THEN ASK: Qwhy eas**

---

Qwhy eas Why has it become easier over time to claim the R&D tax credits?

DO NOT READ OUT. CODE ALL THAT APPLY

Familiarity with the process	1	(871)
Know what qualifies as eligible R&D	2	
Know what counts as eligible costs	3	
Have set up systems to split out eligible costs	4	
Have a good relationship with IR/our tax inspector	5	
Don't Know	Y	
Other	0	
Other specify.....	(872 - 875)	

**End of Filter leasy**

---

**IF Qdiffic = More difficult**  
**THEN ASK: Qmordif**

Qmordif Why has it become more difficult over time to claim the R&D tax credits?

DO NOT READ OUT. CODE ALL THAT APPLY

Process is more complex/has become more complex	1	(876)
Unsure as to what qualifies as R&D	2	
Unsure as to what qualifies as an eligible cost	3	
Claims dealt with by different tax inspectors	4	
Internal company changes make splitting eligible costs more difficult	5	
Change in type of R&D done	6	
Don't Know	Y	
Other	0	
Other specify.....	(877 - 880)	

End of Filter Imordif

End of Filter Imoron2

---

Qapplic Thinking specifically about the application process, are there any improvements or changes you would like to see made?

Yes	1	(908)
No	2	
Don't Know	Y	

---

IF Qapplic = Yes  
THEN ASK: Qimprov

---

Qimprov      What sort of improvements or changes?

(909 - 912)

Don't Know      Y      (909)

**End of Filter Ichanap**

---

**E: claimants - enquiries**

---

Qenquir Was your &TempVa2& claim for R&D tax credits subject to an Inland Revenue enquiry?

Yes      1      (913)  
No      2  
Don't Know      Y

---

**IF Qenquir = No AND Qnumcla = More than one  
THEN ASK: Qpreenq**

---

Qpreenq      Have any of the your company's previous claims been subject to an Inland Revenue enquiry?

Yes      1      (914)  
No      2  
Don't Know      Y

---

**End of Filter Inoenq**

---

**IF Qenquir = Yes OR Qpreenq = Yes  
THEN ASK: Qimpact**

Qimpact      What impact, if any, did the Inland Revenue enquiry have upon your company's claim? Was the...

READ OUT AND CODE ONE ONLY

Claim amended	1	(915)
Claim refused by the IR	2	
Did your company withdraw the claim or did the claim proceed without change?	3	
DO NOT READ OUT - enquiry still ongoing	4	
Don't Know	5	
Other	Y	
Other specify.....	0	
		(916 - 919)

---

**IF Qimpact = Claim amended  
THEN ASK: Qammend**

Qammend      How was your company's claim amended? Was it...

READ OUT

Reduced	1	(920)
Increased	2	
Don't Know	Y	
Other	0	
Other specify.....		(921 - 924)

**End of Filter lamend**

---

**IF Qimpact = Claim amended OR Qimpact = Claim refused by the IR OR Qimpact = Did your company withdraw the claim OR Qimpact = or did the claim proceed without change? OR Qimpact = Other  
THEN ASK: Qfurcla**

Qfurcla Do you think the experience of being subject to an IR enquiry (had) will have an effect upon your company pursuing further claims in the future?

READ OUT

Yes, IR enquiry will deter (deterred) the company making further claims	1	(925)
Yes, IR enquiry will help (helped) the company to make future claims	2	
The IR enquiry will have no effect upon the company pursuing future claims	3	
Don't Know	Y	
Other	0	
Other specify.....	(926 - 929)	

End of Filter lclong

End of Filter lenquir

---

IF (( Qsuccla = Yes ) OR ( Qnumsuc > 0 AND Qnumsuc < 11 ) OR ( Qsucces = Yes ))  
 THEN ASK: Qexpect

---

**F: SUCCESSFUL CLAIMANTS - impact of tax credits**

**Now, I just have some questions about the impact of tax credits on your company**

---

Qexpect Does your company take into account the expected value of R&D tax credits when setting its R&D budget?

Yes	1	(930)
No	2	
Don't Know	Y	

---

IF Qexpect = Yes  
 THEN ASK: Qbudget

---

Qbudget Has the R&D tax credit led you to...

READ OUT AND CODE ONE ONLY

Increase your R&D budget by the expected value of the tax credit	1	(931)
Increase your R&D budget, but by less than the expected value of the tax credit	2	
Maintain your R&D budget instead of cutting it	3	
Reduce your R&D budget but by less than if there was no tax credit	4	
Don't Know	Y	
None of these	X	

**End of Filter lexpect**

---

Qena Are you aware of any instances where the existence of the R&D tax credits has:

Enabled you to undertake more risky R&D projects, either technologically or commercially

Yes	1	(932)
No	2	
Don't Know	Y	

---

Qenab2 Are you aware of any instances where the existence of the R&D tax credits has:

Enabled you to undertake more R&D projects that need a longer time to pay off.

Yes	1	(933)
No	2	
Don't Know	Y	

---

Qen2 Are you aware of any instances where the existence of the R&D tax credits has:

Enabled your UK R&D facilities to attract R&D projects from R&D facilities abroad

Yes, has enabled	1	(934)
No, not enabled	2	
Don't know/not aware	3	

Qpreven Are you aware of any instances where the existence of the R&D tax credits has:

Prevented R&D projects in the UK from migrating overseas.

Yes	1	(935)
No	2	
Don't know/not aware	3	

**End of Filter Isuccla**

---

Qdefine Since the introduction of the R&D tax credits have you changed the way your company defines R&D?

Yes	1	(936)
No	2	
Don't Know	Y	

**IF Qdefine = Yes  
THEN ASK: QrecRD**

---

QrecRD Did this redefinition of R&D lead to...

READ OUT AND CODE ONE ONLY

An increase in the recorded amount of R&D activity	1	(937)
A decrease in the recorded amount of R&D activity	2	
Or made no appreciable difference to the amount of recorded R&D activity	3	
Don't Know	Y	

**End of Filter Idefine**

---

Qincent In your opinion, are R&D Tax Credits an incentive to undertake further R&D that your company would not otherwise undertake?

Yes	1	(938)
No	2	
Don't Know	Y	

---

**IF Qincnt = Yes  
THEN ASK: Qwhyinc**

---

Qwhyinc      Why do you say that?

(939 - 942)

Don't Know

Y

(939)

**End of Filter lincnt**

---

**IF Qincnt = No  
THEN ASK: Qnoince**

---

Qnoince      Why do you say that?

(943 - 946)

Don't Know

Y

(943)

**End of Filter Inoince**

**End of Filter lclaim2**

---

**IF Qsure = Yes, I am sure OR Qclaim2 = No, no claim made**

---

**G: NON CLAIMANTS**

**End of Filter Inoc**

**IF Qsure = Yes, I am sure OR Qclaim2 = No, no claim made  
THEN ASK: QReadfs**

---

QReadfs We sent you a short fact sheet about R&D Tax Credits. Can I just check, have you had a chance to read it?

Yes	1	(947)
No	2	
Not received	3	
Don't Know	Y	

---

**IF QReadfs = Yes  
THEN ASK: QRDelig**

---

QRDelig As far as you can tell from the information in the fact sheet, does your company conduct R&D that might be eligible for this tax credit?

Yes	1	(948)
No	2	
Don't Know	Y	

**End of Filter Inoread**

---

**IF Qaware = No  
THEN ASK: QLikely**

---

QLikely How likely is it that you will investigate to see whether your company can claim Tax Credits via this scheme?

READ OUT

Very Likely	1	(949)
Fairly likely	2	
Not very Likely or	3	
Not at all likely	4	
Don't Know	Y	

**End of Filter Inohear**

**IF QLikely = Not very Likely or OR QLikely = Not at all likely  
THEN ASK: QWhyunl**

---

QWhyunl Why don't you think you will investigate this further?

(950 - 953)

Don't Know Y (950)

**End of Filter INotinv**

---

**IF Qaware = Yes  
THEN ASK: Qreasa, Qreasb, Qreasc, Qreasd**

---

**I am going to read out some reasons why companies might not apply for R&D tax credits. For each one, please can you tell me whether it applies to you (if you don't know, please say so).**

---

Qreasa We do not spend enough on R&D to qualify for tax credits

Applies 1 (954)  
Does not apply 2  
Don't Know Y

---

Qreasb The type of R&D your company does is not eligible for the tax credits

Applies 1 (955)  
Does not apply 2  
Don't Know Y

---

Qreasc We do not think the tax saving would justify the effort involved in applying

Applies 1 (956)  
Does not apply 2  
Don't Know Y

Qreasd We are a large company currently making losses, so the tax relief would be no benefit to us at the moment.

Applies	1	(957)
Does not apply	2	
Don't Know	Y	

**End of Filter lawar**

---

**IF Qreasb = Applies  
THEN ASK: QEliadv**

---

QEliadv You said that you don't think that the R&D your company does would be eligible. Have you received any advice on this?

Yes	1	(958)
No	2	
Don't Know	Y	

**IF QEliadv = Yes  
THEN ASK: QWhoAdv**

---

QWhoAdv Who from?

Tax consultant/tax accountant	1	(959)
Inland Revenue	2	
Other accountants	3	
Business consultant	4	
DTI	5	
colleagues/work associates	6	
Don't Know	Y	
Other	0	
Other specify.....	(960 - 963)	

**End of Filter Irecadv**

**End of Filter Ireasb**

---

**IF Qreasa = Applies  
THEN ASK: QHowCer, QWhenIn**

QHowCer And how certain are you that your company's R&D would not be eligible for Tax Credits?

READ OUT

Absolutely certain	1	(964)
Fairly certain	2	
Not that sure	3	
Can't say	4	
Don't Know	Y	

---

QWhenIn And when did your company decide that it was not eligible for R&D tax credits?

READ OUT

Before April 2002	1	(965)
Between the beginning of April 2002 and the end of March 2004	2	
After April 2004	3	
It hasn't decided	4	
Don't Know	Y	

**End of Filter Icert**

---

**IF Qreasc = Applies  
THEN ASK: QEffEli, QEffFin, QAppEnq**

---

**You said that you don't think the tax saving would be worth the effort. Can I just ask whether you agree or disagree with the following statements.**

---

QEffEli It would take a lot of time for us to separate out eligible R&D costs

Agree	1	(966)
Disagree	2	
Don't Know	Y	

---

QEffFin The financial rewards would be insufficient for us

Agree	1	(967)
Disagree	2	
Don't Know	Y	

QAppEnq Are you concerned that applying could lead to an IR enquiry?

Yes	1	(968)
No	2	
Don't Know	Y	

**End of Filter leffort**

---

**IF Qaware = Yes  
THEN ASK: QAppOth, QApp5y**

---

QAppOth Are there any other reasons why you have not applied for R&D tax credits?

(969 - 972)

Don't Know	Y	(969)
------------	---	-------

---

QApp5y How likely is it that your company will apply for R&D tax credits within the next 5 years?

READ OUT

Very Likely	1	(973)
Fairly likely	2	
Not very Likely or	3	
Not at all likely	4	
Don't Know	Y	

**End of Filter INoncaw**

---

**Now, I just have some questions about the possible impact of tax credits on companies that do R&D**

---

Qrisky Undertake more risky R&D projects, either technologically or commercially.

Very Likely	1	(974)
Fairly likely	2	
Not very Likely or	3	
Not at all likely	4	
Don't Know	Y	

---

QLonger undertake more R&D projects that need a longer time to pay off

Very Likely	1	(975)
Fairly likely	2	
Not very Likely or	3	
Not at all likely	4	
Don't Know	Y	

---

QAbroad In your opinion, how likely is it that receiving R&D tax credits would enable companies to attract R&D projects to the UK from R&D facilities abroad?

Very Likely	1	(976)
Fairly likely	2	
Not very Likely or	3	
Not at all likely	4	
Don't Know	Y	

---

Qmigrat How likely is it that receiving R&D tax credits would Prevent R&D projects at UK facilities from migrating to overseas facilities.

Very Likely	1	(977)
Fairly likely	2	
Not very Likely or	3	
Not at all likely	4	
Don't Know	Y	

---

QIncUnd In your opinion, are R&D Tax Credits an incentive to undertake further R&D that would not otherwise be undertaken?

Yes	1	(978)
No	2	
Don't Know	Y	

---

**IF QIncUnd = Yes  
THEN ASK: QIncYes**

---

QIncYes      Why do you say that?

(1008 - 1011)

Don't Know      Y      (1008)

**End of Filter IIncen**

---

**IF QIncUnd = No  
THEN ASK: QIncNot**

---

QIncNot      Why do you say that?

(1012 - 1015)

Don't Know      Y      (1012)

**End of Filter INoInc**

---

**Just a few questions about your company...**

---

QHoldCo      Is your company the ultimate holding company of a group of companies (Note: the holding company is the highest controlling company within the group)?

Yes      1      (1016)  
No      2  
Don't Know      Y

**IF QHoldCo = No OR QHoldCo = Don't Know  
THEN ASK: QCoType, QConSub**

---

**QCoType** Is your company one of a number of companies within a larger UK group, a single independent company, or a UK based company that is part of a larger foreign company?

One of a number of companies within a larger UK group	1	(1017)
Single independent company not part of a larger group	2	
A UK based company part of a larger foreign company	3	
Don't Know	Y	
Refused	Z	

---

**QConSub** Does your company own or control any subsidiary companies or establishments?

CODE ALL THAT APPLY

Yes - in the UK	1	(1018)
Yes - outside the UK	2	
No	3	
Don't Know	Y	

**End of Filter INotHol**

---

**IF QHoldCo = Yes  
THEN ASK: QHoMany**

---

**QHoMany** How many of the companies in the group that you are the holding company for are registered in the UK?

(1019 - 1020)

Numeric Range _____		
Don't Know	Y	(1019)

Permitted Range  
1 TO 99 (Numeric Range)

End of Filter IHolHow

End of Filter Inonc

---

**H: COMPANY DETAILS**

**Finally, I'd just like to collect a few details about your company This is just for analysis purposes, and is all totally confidential.**

---

Qsize I'd like to get an idea about the size of your company in terms of the number of full-time employees.  
&TempVa4& How many employees do you employ at all sites?

0-4	1	(1021)
5-9	2	
10-19	3	
20-49	4	
50-99	5	
100-249	6	
250-499	7	
500-999	8	
1000-4999	9	
5000 plus	0	(1022)
Don't Know	Y	(1021)

QturnovWhat was the overall turnover of your company in the last financial year for which figures are available?

#0 - #49,999	1	(1023)
#50,000 - #99,999	2	
#100,000 - #249,999	3	
#250,000 - #499,999	4	
#500,000 - #999,999	5	
#1 million or over but less than #2 million	6	
#2 million or over but less than #5 million	7	
#5 million or over but less than #10 million	8	
#10 million or over but less than #27 million	9	
#27 million or over but less than #50 million	0	(1024)
#50 million or over but less than #100 million	1	
#100 million or over	2	
Don't Know	Y	(1023)
Refused	Z	

Qprolos Can I just check, in the last financial year, did your company make a profit or a loss? We are referring to the figure listed in your accounts.

IF NECESSARY: I don't need to know how much-just whether you made a profit or loss.

Profit	1	(1025)
Loss	2	
Don't Know	Y	
Refused	Z	

QspendOverall, how much did your company spend on R&D in the last financial year

TYPE IN FIGURE

(1026 - 1033)

Numeric Range _____		
Don't Know	Y	(1026)
Refused	Z	

Permitted Range  
1 TO 99999999 (Numeric Range)

---

QpattenThinking back over the last 5 years, would you say that R&D spending at your company has...

READ OUT

Increased	1	(1034)
Decreased	2	
Fluctuated	3	
Remained the same	4	
(DO NOT READ OUT) Don't know/could not say		
Don't Know	5 Y	

---

Qgeogra Geographically, where is R&D for your company undertaken?

READ OUT AND CODE ONE ONLY

R&D in UK only	1	(1035)
Predominantly in the UK with some R&D sites overseas	2	
R&D evenly split between the UK and abroad	3	
Predominantly overseas with smaller R&D site in the UK	4	
All R&D undertaken overseas/No R&D in the UK	5	
Don't Know	Y	

---

Qindust What would you say is the main industry sector of your company?

READ OUT AND CODE ONE ONLY

Aerospace and defence	1	(1036)
Automobiles and parts	2	
Chemicals	3	
Construction and building	4	
Electronic and electrical	5	
Engineering and machinery	6	
IT hardware	7	
Media and entertainment	8	
Mining	9	
Oil and gas	0	(1037)
Pharmaceuticals and biotechnology	1	
Software and computer services	2	
Telecommunications	3	
Transport	4	
Don't Know	Y	(1036)
Refused	Z	
Other	0	
Other specify.....	(1038 - 1041)	

---

Qactivi Would you say that R&D is the main activity of your company?

Yes	1	(1042)
No	2	
Don't Know	Y	

---

Qproser Does your company sell products or services or both?

Sells products	1	(1043)
Sells services	2	
Both	3	
(Neither)	4	
Don't Know	Y	

---

QAnyEls Is there anything else you would like to add about R&D tax credits?

(1044 - 1047)

Don't Know Y (1044)  
None of these X

---

**Before we finish, there's just a couple of things I need to check.**

---

Qcomnam Can you confirm the name of your company for me, please?

(734 - 737)

Don't Know Y (734)

---

QJTitle Can I just confirm your job title?

(1048 - 1051)

Refused Z (1048)

---

QFutCon We may wish to conduct further research on R&D Tax Credits in the future. Would you be willing to be contacted with a view to taking part?

Yes 1 (1052)  
No 2  
Don't Know Y

---

**QUANCEPT ITEM:**

---

**QUANCEPT ITEM:**

---

Qname Could I take the name of the person I need to speak to please.

(1053 - 1056)

Don't Know

Y

(1053,

---

Qaltad1 Could I take the first line of the new address please?

(1057 - 1060)

Don't Know

Y

(1057,

---

Qaltad2 Could I take the second line of the new address please?

(1061 - 1064)

Don't Know

Y

(1061,

---

Qaltad3 Could I take the third line of the new address please?

(1065 - 1068)

Don't Know

Y

(1065)

---

Qaltad4 Could I take the fourth line of the new address please?

(1069 - 1072)

Don't Know

Y

(1069)

---

Qaltad5 Could I take the fifth line of the new address please?

(1073 - 1076)

Don't Know

Y

(1073)

---

Qaltpc And the post code?

(1077 - 1080)

Don't Know

Y

(1077)

## **C Qualitative findings**



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# R & D Tax Credits:

## Exploratory Qualitative Research

**BMRB Social Research**



## Agenda

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- Research aims
- Sample characteristics
- Awareness of R & D Tax Credits
- Experience of making a claim
- Perceived impact of R & D Tax Credits
- Information sources
- IR Enquiries
- Reasons for not making a claim
- R & D Information Sheet
- Survey issues



## Research Aims

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- To explore:
  - awareness of R & D Tax Credits
  - reasons for claiming / not claiming R & D Tax Credits
  - experience of the claim process
  - perceived impact on the business
  - experience of IR Enquiries
- To consider design issues for a subsequent survey



## Research Design

---

- 20 in-depth qualitative interviews
  - Split evenly between companies that had made a claim for R & D Tax Credits and those that had not
- Companies sourced from DTI R & D database, plus 'free-find'
- All companies to be undertaking eligible R & D
- Quotas set for company size and sector
- Fieldwork undertaken during December 2004

## Sample profile

QUOTAS		Company Size			
		Small U £27M and U 50 Employees	Medium U £27M and 51-250 Employees	Large £27M+ and 250+ Employees	Total
Made / making claim	Quota	3	4	3	10
	<b>Achieved</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>10</b>
Not made a claim	Quota	4	4	2	10
	<b>Achieved</b>	<b>5</b>	<b>4</b>	<b>1</b>	<b>10</b>

## Sample Characteristics - 1

Sectors	
Software	3
Pharmaceutical	2
Engineering	2
Automotive	2
Chemical	2
IT (Hardware)	2
Electronic	2
Technology	1
Telecommunications	1
Support Services	1
Food	1
Household Goods	1

Example R & D undertaken
Voice recognition software
CAD/CAM software
Industrial lighting
Intelligent electronics in toys
Waste collection and disposal
Digital boat control
Flavours and smells for food / perfume industry
Innovative techniques for measuring pressure and temperature

## Sample Characteristics - 2

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- Most of the companies set an annual R & D budget (often 'same as last year')
- Most of the companies quoted R & D costs in their annual accounts
- Companies that had made a claim had made between 1 and 4 R & D Tax Credit claims
  - None had had a claim turned down; some had had a claim modified
  - None had been put off making a subsequent claim for R & D Tax Credit
- Most of the small companies were loss-making
- Some evidence of R & D undertaken abroad
  - Difference of opinion whether this was eligible

## Awareness of R & D Tax Credits

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- All companies were aware of R & D tax Credits, even those that had not applied
- Brought to attention primarily by Accountants and Auditors
  - Also corporate information providers, professional press, IR web site
- Accountants often involved in helping companies in determining what were eligible costs
- R & D Tax Credit claim often made by accountants using information supplied by the company (and therefore the interviewee had little knowledge about the process)



## Making an R & D Tax Credit claim - 1

### Eligible R&D

- Companies found it difficult to explain what eligible R & D was
- Some concern about whether all that they had claimed for was eligible
  - But had been advised by accountants
  - Taken a conservative approach
- Biggest concerns raised between the dividing line between product enhancement and product development
  - (e.g. an existing product using existing technologies but in an innovative way)
  - Knowledge that other companies also developing similar products



## Making an R & D Tax Credit claim - 2

### Eligible costs

- Companies adopted a conservative view of what were eligible costs
  - May try including costs they were less sure about in subsequent years' claims (particularly around product design)
- Companies had different approaches to capturing R & D spend
  - Full-time R & D staff only (too complicated / expensive to calculate for staff working part-time on R & D)
  - By hours worked (for all staff involved)
  - Exclude consumables
  - Include consumables, but not power, water, etc.
  - Include ALL consumables

## Making an R & D Tax Credit claim - 3

### Eligible costs – continued

- Problem issues
  - Determining staff time where not wholly involved in R & D
  - Working out rent / square footage of floor space
  - Proportion of consumables used in R & D versus manufacturing
    - Particularly power and water (chemical factory)
- Some view that it was not worth while making these calculations as the contribution will be small
- Would be good to have a definitive IR list of eligible R & D costs

## Making an R & D Tax Credit claim - 4

### Process of making a claim

- First claim is the most difficult as have to ensure that eligible costs are identified
- Some evidence of companies re-defining R & D to fit IR definition
- Introduction of cost codes specifically for R & D staff time and R & D consumables in order to make a claim
  - Instances of only claiming R & D Tax Credit as they move to new financial accounting systems

## Making an R & D Tax Credit claim - 5



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### Process of making a claim continued

- Financial information often supplied to accountants who then make the claim
  - Often little experience of making the claim themselves
- Those making the claim themselves found the process to be very easy
- Generally, subsequent claims easier as the preparatory work has been done
  - Some good relationships developed with IR inspectors
- Some experience of back-dated claims - unproblematic

## Payable credit versus CT deduction



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- General preference for payable credit, across all companies
    - Aids cash flow
    - Income to enter into the balance sheet



## Other sources of R & D support

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- Very little awareness of other sources of R & D support
  - But interest expressed!
- Some experience of ('DTI money') DTI Technology Programme
  - In partnership with a University and little input into the process
  - Perception is that R & D Tax Credit claim is a very simple process in comparison



## Impact of R & D Tax Credits - 1

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- Companies would conduct R & D anyway, irrespective of the R & D Tax Credit
  - Have to undertake R & D otherwise they would not be able to survive as a company; would not be competitive
  - Instances of company role to be wholly R & D
- Use of R & D Tax Credits
  - Generally absorbed into company finances and not re-allocated to R & D specifically



## Impact of R & D Tax Credits - 2

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- Impact on companies receiving R & D tax credit
  - Able to consider more risky R & D
  - Undertake R & D that is longer term than the norm (before product comes to market)
  - Enhances cash flow (particularly loss-makers)
  - Enables them to sustain existing R & D (finding it hard to compete and down-sizing – chemical manufacturer)
- Potential impact (companies not claiming)
  - Sustain existing R & D
  - Enable new R & D (expansion into other areas)
  - Improve cash flow



## Enquiries - 1

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- Four companies had had enquiries opened
  - 2 on-going
  - 2 complete with no changes made
- Time taken for resolution – 2 to 9 months
- One had had an enquiry opened on every R & D Tax Credit claim they had made (4 claims)
- Companies may surprised that they had not had an enquiry
  - Particularly around 'refining' existing products within which there is 'new technology'



## Enquiries - 2

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- Very satisfied with IR Inspectors
  - Inspectors had helped define what was eligible R & D and what were eligible costs
  - Companies felt more confident about future claims
  - Enquiry process seen as unproblematic
    - handled well by IR staff
    - patient and understanding
    - communicative
    - no impact on the claim itself
    - no impact on likelihood of making a future claim



## Contact with IR as part of making a claim

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- No evidence of any contact with IR prior to submitting a claim (i.e. to determine eligible R & D, costs, etc.)
  - Undertaken with accountants; accountants may have discussed with IR
  - Talking to IR not considered at this point
  - Some evidence of intention to discuss prior to next claim (to determine whether 'new' costs are eligible)
- Evidence of looking at IR web site and DTI web site
  - IR site seen as 'woolly' and unhelpful in terms of defining eligible R & D and eligible costs

## Reasons for not claiming R & D Tax Credit - 1



- Awareness and knowledge
  - Aware, but not sufficiently brought to their attention to know whether it would be worthwhile
  - Definitions of eligible R & D not clear enough to entice them
  - Unsure of process of claiming
  - Unsure of the amount of time it would take and whether it would be financially worth while
  - Historically had not made a claim and had no clear enticement to do so now

## Reasons for not claiming R & D Tax Credit - 2



- Perceptions
  - MD had a previously been refused R & D Tax Credits when with another company
  - Waiting for R & D Tax Credit process to 'settle down and for the grey areas to be ironed out' (and then make a back claim)
  - Predecessor had not made a claim as 'Tax Credit' had 'tax' in the title and they did not like dealing with 'tax'!
  - Perceived hassle of dealing with the Inland Revenue (and little idea of value)

## Reasons for not claiming R & D Tax Credit - 3



- Eligibility
  - Not undertaking eligible R & D at the time, but would be this year
  - Advised that company not doing eligible R & D although as a result of the interview they thought they may be
- Facilities
  - ‘Old fashioned’ accounting system that did not use cost centres / codes and did not consider it possible to collect necessary information



## R & D Information Sheet

- Well received
  - Generally well understood
  - A good starting point
- Issues arising (reflecting information needs)
  - Some contradiction over eligibility (new product development)
  - Problem with understanding 150% figure and the 24 pence in the pound figure (what's the difference and which would apply?)
  - Need to clarify different internal and external staff cost rates
  - Would like examples, particularly of eligible R & D and eligible costs, working out 'shared resources' such as fuel costs
  - Wanted time scales; how often can claim; process information; who to contact
  - No mention of 'uncertainty' (i.e. R & D is only R & D if the outcome is uncertain)

## Survey issues - 1

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- Who to interview?
  - Finance Director / Tax Director / Company Secretary
  - Board Level (MD in small company)
  - A person who is privy to financial decision-making
- Availability of information
  - At finger tips / in published Company Accounts (quoted on Stock Exchange or on AIM)
  - Generally would not need notice (but courteous), unless detailed financial information required, or where multiple companies in the group
  - Where accounts are awaiting publication with the Stock Exchange, the previous years' accounts would have to suffice
- Willingness to be interviewed / talk
  - Willingness to be interviewed: generally affirmative but it would depend on whether they were at year-end

## Survey issues - 2

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- Financial information
  - No problem for those who had made a claim to break out R & D spend; those who had not made a claim either could not pull out R & D spend; would have to estimate; or used different definition of R & D to IR (could be wider or narrower)
  - Some difficulties if detailed spending information was required
  - Companies making a claim generally would be able to provide high-level information with 100% accuracy instantly; lower level information would require time or much less accuracy
  - Time periods to which the financial information relates will depend on year-end date
  - Need to determine Group versus individual company R & D Tax Credit claims



## Recruitment

### Recruitment

Total companies contacted	557
Out of quota	357 <sup>1</sup>
Left voicemails – unable to contact	94
Refused	
Not interested	11
Year end pressure	75
<b>Recruited</b>	<b>20</b>

<sup>1</sup> Not surprising given the small size of the required sample and the number of quotas set



QUOTAS		Company Size			
		Small U £27M and U 50 Employees	Medium U £27M and 51-250 Employees	Large £27M+ and 250+ Employees	Total
Made / making claim	Quota	3	4	3	10
	<b>Achieved</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>10</b>
Not made a claim	Quota	4	4	2	10
	<b>Achieved</b>	<b>5</b>	<b>4</b>	<b>1</b>	<b>10</b>



Sectors	
Software	3
Pharmaceutical	2
Engineering	2
Automotive	2
Chemical	2
IT (Hardware)	2
Electronic	2
Technology	1
Telecommunications	1
Support Services	1
Food	1
Household Goods	1

Example R & D undertaken
Voice recognition software
CAD/CAM software
Industrial lighting
Intelligent electronics in toys
Waste collection and disposal
Digital boat control
Flavours and smells for food / perfume industry
Innovative techniques for measuring pressure and temperature

