

Research and Development Tax Credits

Executive Summary

December 2005

Prepared for:

HM Revenue and Customs

Prepared by:

Sam Clemens, Ben Savage, Dominika Malicka

BMRB Social Research

Telephone: 020 8433 4342

Email: sam.clemens@bmr.co.uk

Part of BMRB Limited (British Market Research Bureau)

BMRB/AT/RR/45103640

Her Majesty's Revenue and Customs Research Report 12

Copyright: reports and any other material associated with a research study are normally intended for use within a client's organisation and its associate organisations such as advertising agents. Should a client intend wider circulation of the results then the client must agree the form and content with BMRB, and must acknowledge BMRB as the source of the information.

BMRB is ISO9001 accredited, and is certified as working to the requirements of MRQSA/BS7911 market research quality standards.

The views of this report are the authors' own and do not necessarily reflect those of HM Revenue and Customs.

Executive 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.