

# The scope of qualifying expenditures for R&D Tax credits

## HMRC Consultation

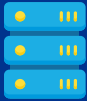


**Research and Development ('R&D') is a significant global factor in driving innovation, productivity gains and economic growth. The UK government is committed to an ambitious target for R&D investment of 2.4% of GDP by 2027<sup>1</sup>. The government is aware that it is important to ensure that R&D Tax Credits provide excellent targeted support to R&D activities undertaken in the UK.**

Alongside increasing the RDEC rate from 12% to 13%, the government is consulting on potential changes to the scope of qualifying expenditures for R&D tax credits.

The government is inviting formal responses on a number of areas including data and cloud computing costs and qualifying indirect activities. This will help inform the government as it develops its R&D tax credit strategy to ensure that the scope of qualifying expenditure remains appropriate in the years ahead.

Whilst the government welcomes views on areas where R&D costs ought to be made eligible for relief, it has stressed that any alterations must be delivered in a cost-efficient manner. The deadline for the consultation is 13 October 2020.



### Data

In recent years, some stakeholders have proposed that more of the costs incurred in the generation, processing or analysing of datasets should be eligible for relief under the R&D tax credits regimes.

Some claims may already have included data as a consumable item. However, the government is keen to understand more about how businesses classify and use datasets when undertaking R&D activities.

We'd be interested to hear from any companies who:

- Incur data costs that contribute to R&D but do not currently include these in an R&D claim and the impact inclusion could have on their claims
- 'Consume' datasets as part of their R&D process and details on the value that is retained within these datasets following the R&D activity using the datasets



### Software (cloud computing)

At present, software licence costs may qualify for R&D tax credits.

However, there are some other costs, typically part of 'cloud computing' that do not qualify such as storage rental, support and processor running time etc. The government would like to understand whether these wider costs should qualify, alongside traditional software costs.

We'd be interested to hear from any companies who:

- Currently claim for software costs and how the R&D specific costs are identified and whether they incur any software costs that could be excluded from relief without materially affecting R&D projects
- Have software costs, partially or wholly for R&D purposes, that do not currently qualify for R&D tax credits and the nature of these 'other' costs



## Data and cloud computing costs

The government also welcomes views on broader questions related to data and cloud computing.

We'd be interested to hear from any companies who:

- Include data and cloud computing costs in R&D claims made in other jurisdictions, outside of the UK
- Would make additional investments in R&D in the UK using additional relief obtained from the inclusion of data and cloud computing costs
- May change the commercial relationship between third party providers in the event that data and cloud computing costs were permitted to be included in R&D claims



## Indirect activities and routine work

As highlighted above, the government is open to expanding the scope of qualifying expenditures for R&D tax credits but seeks to do so in a way that emphasises value for money for the taxpayer.

Therefore, the government is keen to gather views on expenditure on qualifying indirect activities ('QIAs') and whether these costs should be excluded from the scope of qualifying expenditures for R&D tax credits to allow expenditures that genuinely advance R&D to be included in the scope of qualifying expenditures.

We'd be interested to hear from any companies who:

- Currently make large claims in relation to QIAs
- Currently make claims in relation to QIAs but would sacrifice some/all of these QIAs to make claims in relation to data or 'other' software costs and whether there are any types of QIA costs that could be excluded and not materially impact R&D claims

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