

Tweak the eligibility criteria relating to R&D tax relief

- 1.1 The R&D SME tax relief and Research and Development Expenditure Credit (RDEC) have both proven effective at leveraging additional private R&D expenditure. Tweaks to the eligibility criteria could help unlock the full potential of these schemes, stimulating additional private investment across a range of industries.
- 1.2 **The R&D SME tax relief** stimulates SME demand for collaborative R&D activity, by providing tax relief to those undertaking innovative research. **Every £1 of cost to the exchequer returns an additional R&D expenditure of between 75p and £1.28.**¹ RDEC can be claimed by firms of all sizes, where they are undertaking research projects in STEM areas. HMRC's evaluation of the scheme demonstrates that **every £1 of RDEC stimulates additional private sector investment of between £2.40 and £2.70**², meaning the estimated £2.4bn in RDEC provided in 2017/18 would have stimulated between £5.8bn and £6.5bn of additional R&D expenditure that year.
- 1.3 However, the criteria for which projects are eligible for the SME tax relief and RDEC is complicated, acting as a barrier to take-up, and running counter to the core principles of the Government's review of research bureaucracy. **Additionally, neither form of relief apply to non-STEM research projects, meaning there is less incentive for innovative SMEs in a range of sectors critical to the UK economy, such as services and the arts, to undertake R&I projects.**
- 1.4 To maximise take-up of the schemes, stimulating greater private R&D investment, and ensuring a range of key sectors benefit, we propose:
 - **Introducing automatic eligibility for SMEs undertaking collaborative R&D with universities registered with the Office for Students (OfS).**
 - **Allowing firms operating in non-STEM areas of the economy to apply to the SME tax relief and RDEC for research projects that are non-STEM.**

¹ <https://www.gov.uk/government/publications/evaluation-of-the-research-and-development-tax-relief-for-small-and-medium-sized-enterprises>

² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/934270/Evaluation_report_-_R_D_RDEC.pdf