

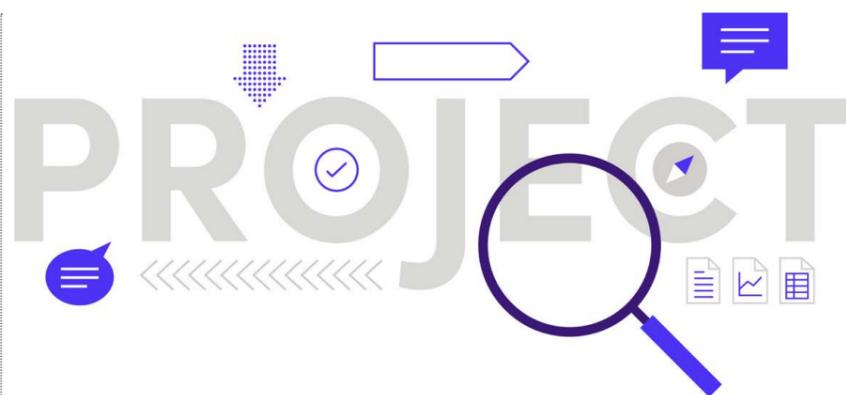
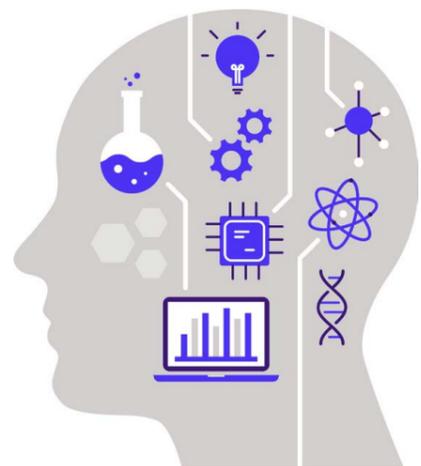
R&D Tax Incentives – are we heading towards a tipping point?

We do not have to remember too far back to a time when Commissionaires and Double Irish Dutch Sandwiches were common place tax planning.

As international scrutiny increased, and Governments coalesced around a 'fair' tax outcome, along came BEPS and DPT. The increasing concern is that the same could happen with R&D tax incentives. Here are the warning signs:

- From 2013-14 to 2016-17 the cost of R&D tax incentives increased by 110% from £1.6bn to £3.4bn.
- HMRC have recently launched the R&D Digital Form in response to receiving a significant number of claims with little or no supporting information
- An increase in cases of abuse has led HMRC to introduce a new cap on the SME R&D credit: a measure that could end up reducing claims for many genuine non-abusive cases.

There remains compelling evidence to demonstrate the benefit and positive impact of R&D credits. However, the problem is this: the approach to evaluating whether a company is undertaking qualifying R&D and the extent to which those activities should be eligible is inherently subjective and the outcome of



decisions around these two perspectives directly impacts the available tax credit.

Unchecked, some businesses will inevitably be tempted to encroach upon the boundary of acceptability and then beyond (often on the suspicion that competitors have done the same). We all know too well that borders without a clearly defined barrier are notoriously difficult to police.

This is where the R&D adviser community has a responsibility to ensure that claims are underpinned by a rationalised and objective methodology.

There are a number of excellent advisers comprising professionals who have specialised in the R&D space for many years and take great pride in helping companies access and claim the right level of credit. They are comfortable challenging whether an activity truly qualifies under the BEIS guidelines. Unfortunately, the cost of obtaining this level of advice can be prohibitive.

However, at the other end of the spectrum, there are advisors whose analysis is lacking looking to share in the opportunity this generous incentive affords. You'll find them at the border and beyond.

But there is also a middle ground, where the analysis appears to be detailed, but where the substance is actually less so. Some of the key characteristics of the output from this group are:

- lengthy reports presenting pages on the company's general business (little of which is relevant to the claim) and copied extracts of legislation and published HMRC guidance
- claims that focus on one or two projects and use this as a proxy as evidence for a long list of others
- a lack of rigour around cut-off, allowing costs of routine activities be inadvertently (and mistakenly) included in the claim.

This last category of advice often gives the business a false sense of security and leaves it exposed to HMRC investigations and charges.

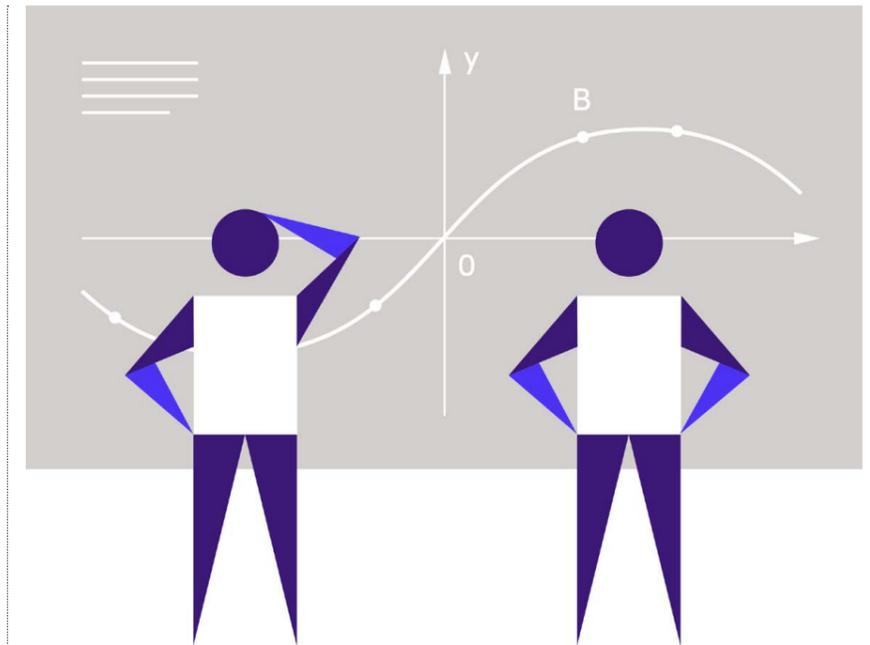
In the UK, we are fortunate enough to have a highly competitive R&D regime. It is well understood and has been an extremely valuable source of support to many companies. Abuse, and misuse of the regime will only result in the benefits being restricted, as has already been seen in the introduction of a cap on the SME credit. Such restrictions will bring in additional complexity and are likely to reduce credits for many companies making legitimate claims. The RDEC and SME regime need to be regarded with a much higher degree of care and respect, ensuring that as much of the incentive as possible is getting back to our companies innovating to support science and technology in the UK.

Key points

- The UK is fortunate to have a highly competitive R&D regime – an extremely valuable support for many businesses innovating to support science and technology in the UK.
- However, poorly evidenced claims and tax abuse in this area are on the rise and clearly on HMRC's radar.
- This is where RDECX can help. RDECX represents the next generation in R&D tax support. Based on FTI's proprietary R&D Index and backed by a wealth of resources and guidance, RDECX delivers greater efficiency, certainty and reduced cost for companies, without compromising the integrity of the R&D claim.

FTI Consulting's approach to tax advisory services is based around the expert model. As part of a leading multinational consulting firm, our team of specialists is built around core areas of expertise where we aim to lead the market and deliver true, long term, value to our clients.

FTI Consulting has developed an online platform RDECX which addresses the concerns around R&D tax incentives highlighted over. We have researched and invested in an approach that is more objective and robust, leading to greater efficiency, certainty and reduced cost for companies preparing R&D credit submissions. Furthermore, if implemented to enable real time



evaluation of R&D, there is an increased prospect of identifying additional qualifying activities.

RDECX addresses the inherent inefficiency, potential weaknesses and risk of challenge seen in traditional R&D evaluation methodologies.

It enables:

- A greater level of confidence in identifying sources of qualifying innovation
- A more definitive and robust assessment of those activities
- Real time evaluation which can help identify more qualifying R&D, and
- Reduced time and cost in preparing the submission

FTI Consulting have developed the R&D Index based on ratings across

the seven key criteria for qualifying R&D activities as defined by the BEIS Guidelines and tax legislation.

Depending on the range in which the index falls, RDECX will provide feedback on whether or not the project should qualify and any further evidence that might be helpful. The inputs and result can then be downloaded and used as part of the documentation to support the claim. Throughout RDECX there is embedded guidance and links to more detailed supporting materials, to ensure that all the important information is readily accessible. Subscribers to RDECX can also make use of a dedicated helpline to answer questions.

This allows the business to identify those areas of greatest risk and look to take expert advice on those areas that require further analysis.

Please visit www.rdecx.co.uk to view the online demonstration or contact rdecx@fticonsulting.com for further information.



www.rdecx.co.uk



FTI Consulting

We are an independent expert-led tax practice, with definitive expertise across many areas of tax and a commercial approach to advising our clients. We provide tax advisory services to FTSE 100 and major corporations across a broad suite of tax services and technical specialisms. FTI occupies a unique position in the market combining highly experienced tax experts and our market leading strategic communications, economics and technology teams. We work with world leading tax consultancies and law firms to provide solutions to clients at a cross-jurisdictional level.

