

Government's Pledge to Bolster R&D Investment Applauded in Autumn Statement

EmpowerRD, the UK's R&D Tax Credit specialist outlines the key highlights of this week's Autumn Statement.

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[EmpowerRD](#), a leading R&D Tax Credit specialist, welcomes the UK Government's commitment to supporting research and development (R&D) in the Autumn Statement 2023. The government recognises the pivotal role that R&D plays in driving innovation, economic growth, and societal benefits.

EmpowerRD commends the government's proactive steps towards simplifying and enhancing the R&D tax relief system to promote sustainable investment in R&D.



Hari Sandhu, Founder of EmpowerRD

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*Hari Sandhu, Founder of
EmpowerRD*

In a technical note published before the Autumn Finance Bill 2023, the government outlined several key reforms to strengthen the R&D landscape. EmpowerRD highlights the following fundamental changes:

Key Highlights of the Announcement:

Consolidation of R&D Tax Reliefs: The government plans to merge the current Research and Development Expenditure (RDEC) and Small and Medium-sized Enterprise (SME) schemes, effective for accounting periods beginning on or

after 1 April 2024. This move aims to streamline the tax system, introducing a unified set of qualifying criteria and improved visibility through an above-the-line credit. Importantly, loss-making entities under this merged scheme will benefit from a reduced notional tax rate,

decreasing from the current 25% (as per RDEC) to 19%. Proposed rates for the merged scheme: The rate offered under the merged scheme will be implemented at the current RDEC rate of 20%. The notional tax rate applied to loss-makers in the merged scheme will be the small profits rate of 19%, rather than the 25% main rate set in the current RDEC.

Additional Support for R&D-Intensive Loss-Making SMEs: The intensity threshold for supporting R&D-intensive, loss-making Small and Medium-sized Enterprises (SMEs) will be lowered from 40% to 30%. This adjustment will encompass approximately 5,000 more R&D-intensive SMEs, expanding their eligibility for relief. Additionally, a one-year grace period will be introduced, ensuring that companies temporarily falling below the 30% qualifying R&D expenditure threshold can still claim relief for a full year. Eligible businesses can start claiming for expenditures incurred from 1 April 2023 once the Autumn Finance Bill 2023 receives Royal Assent. These changes will apply to accounting periods starting on or after 1 April 2024.

Nomination and Assignment Changes: Effective from 1 April 2024, companies claiming R&D tax credits will no longer have the option to nominate a third-party payee for these credits, with limited exceptions. Additionally, no new assignments of R&D tax credits will be allowed from 22 November 2023 onwards. This means that, in most cases, R&D tax reliefs will be directly disbursed to the claiming companies, ensuring they have full control over the claim process and receive payments more swiftly. These changes will be incorporated into the Autumn Finance Bill 2023.

Conclusion of the R&D Review: The government initiated a review of R&D tax reliefs during the Spring Budget in 2021 to assess their competitiveness, suitability, and efficiency. This review, now reaching its conclusion with the introduction of the merged scheme, aims to address concerns about non-compliance within the R&D reliefs. HMRC will soon release a compliance action plan to mitigate this issue. Additionally, the government commits to continued collaboration with the industry to enhance support for R&D-intensive SMEs and explore further simplifications.

EmpowerRD believes these reforms signify a positive step towards encouraging businesses to invest in R&D, fostering innovation, and supporting economic growth. The alignment of R&D tax reliefs is expected to simplify the claims process for companies of all sizes, making it easier for them to access the financial support they need to drive innovation.

Hari Sandhu, Founder of EmpowerRD, highlights the significance of these changes: "Starting April 1, 2024, we'll see two distinct schemes – the unified RDEC-merged scheme and a dedicated intensive SME scheme, ushering in a new era for R&D investment. The government's steadfast support reinforces long-term stability, aligning with HMRC's original vision since 2000. SMEs

should seek expert guidance in this transformative landscape, with an expected £280 million investment uplift – a clear commitment to enhancing R&D tax relief."

The announcement also underscores the government's commitment to addressing the challenges in the R&D relief landscape, focusing on reducing non-compliance. EmpowerRD looks forward to further details on HMRC's compliance action plan and collaborative efforts with the industry to enhance support for R&D-intensive SMEs and explore additional simplifications.

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