

# Changes on the horizon for research and development tax breaks

**Businesses may need to rethink their strategies to accommodate changes to tax relief on research and development (R&D). Here's a brief breakdown of what to look out for.**

## Compliance

From 1 April 2023, it is proposed that businesses must inform HMRC online that they will be making an R&D claim within six months of the end of the accounting period to which the claim relates.

Failure to notify could lead to disallowance of the R&D claims. However, businesses that have claimed R&D in one of the preceding three periods will not need to pre-notify.

## Overseas activities

From 1 April 2023, R&D tax relief will be restricted to activities undertaken in the UK with only a very limited scope for claiming any overseas activities.

UK companies that currently claim R&D costs paid to, for example, overseas group companies or overseas third parties may no longer be able to include these costs in their claims.

## Externally provided workers

Also from 1 April 2023, payments to externally provided workers to carry out R&D will only qualify for relief to the extent that those workers' earnings are taxed through the pay as you earn (PAYE) system.

## Cloud and data expenditure

Spending related to cloud computing and data can be included in R&D tax relief claims from 1 April 2023 – a change that will be particularly beneficial for businesses working in the tech and media sectors.

For example, businesses that pay licence fees to rent cloud computer space or pay for data in the context of R&D will be able to incorporate these costs into their claims.

## Cash refund cap

It is also worth remembering that the cash refund cap is now in effect for accounting periods beginning on or after 1 April 2021.

From 1 April 2021 the amount of R&D tax credit that a business can receive was capped at £20,000 plus 300% of its total Pay as you Earn (PAYE) and National Insurance Contributions (NIC) liability for the period.

However, a business is exempt from the cap if:

- its employees are creating, preparing to create or managing intellectual property
- it does not spend more than 15% of its qualifying R&D expenditure on subcontracting R&D to, or the provision of externally provided workers by, connected persons.

This change does not affect the 130% relief on qualifying annual R&D costs, just the amount which you can surrender for cash. So, if the cash refund is restricted, you can still carry forward the rest to claim as part of trading loss in future years.