

Response to consultation on Research and Development Tax Credits

This document has been prepared for H M Treasury

TECHNOLOGIA

Mick McLean & Giles Courtice
22 February 2011

Contents

1	Technologia's expertise.....	1
2	Question 4H	2
3	GR&D as a model	3
4	Proposed operational aspects	5
5	Conclusions	7

1 Technologia's expertise

Technologia is a specialist in science, technology and high tech markets. The company was formed in 2008 through the management buy out of the former public sector practice of Sagentia, a leading international product development consultancy. Technologia has worked for large and small high technology enterprises; private and public investors in high-tech and various agencies of UK government, regulators, HEIs and technology transfer functions, English RDAs, Scottish Enterprise, Invest Northern Ireland & Enterprise Ireland.

What Technologia does is mainly to help client organisations scrutinise and justify investment in S&T and the institutions which support it, using our specialist knowledge of technology and business.

2 Question 4H

We have specific proposals to make in relation to Question 4H.

Are there improvements to the claims process that would make it more streamlined and certain for companies, particularly smaller companies with limited resources? Would there be significant benefits from an external auditing process for claims or a more formal pre-clearance procedure of R&D projects with HMRC?

Many of the smaller companies that we have encountered in the course of our work are still unhappy about the relative uncertainty of the R&D Tax Credit scheme in comparison to other forms of support. Things have definitely improved in this respect following the establishment of the specialist centres, but we believe that there is a residual level of uncertainty which is still deterring many SMEs from undertaking R&D and claiming under the R&D Tax Credit scheme. For the firms we work with there would be a significant benefit from a pre-clearance process that removes this uncertainty. However there have been concerns that a pre-clearance scheme would be costly, bureaucratic or otherwise unworkable. We believe that these concerns are misplaced because there already exists a network of assessors for the Grant for R&D scheme (GR&D) who could be deployed by re-using many of the same elements as the GR&D scheme itself.

3 GR&D as a model

The GR&D scheme offers support to firms wishing to undertake specific projects. The criteria for the scheme relate to the:

- level of technological innovation;
- level of technological risk;
- extent to which the project aims are achievable;
- market potential;
- capability of the project team to overcome the technical challenge.

The GR&D scheme was found to be highly cost effective in an evaluation carried out by PACEC in 2009¹. Until 2010 the scheme was operated by the RDAs but is now being transferred to the Technology Strategy Board.

The application process for GR&D requires applicants to submit information in a reasonably consistent format according to a supplied checklist. The material is then assessed by a cohort of independent assessors and written-up using a standard assessment pro-forma. The assessments are budgeted at half a day, for which fees of around £400 are payable. The final decision has been made by RDAs.

The assessment criteria for GR&D are remarkably similar to the guidelines for R&D tax credits. For example, the Guidelines on the Meaning of Research and Development for Tax Purposes (2004) identify an advance in science or technology as a project which seeks to, for example

- (a) extend overall knowledge or capability in a field of science or technology; or
- (b) create a process, material, device, product or service which incorporates or represents an increase in overall knowledge or capability in a field of science or technology; or
- (c) make an **appreciable improvement** to an existing process, material, device, product or service through scientific or technological changes; or
- (d) use science or technology to duplicate the effect of an existing process, material, device, product or service in a new or appreciably improved way (e.g. a product which has exactly the same performance characteristics as existing models, but is built in a fundamentally different manner).

Currently, assessors for the GR&D scheme have to evaluate whether the proposed work likely to:

- extend overall knowledge or capability in a field of science or technology; or
- create a product or process that incorporates or represents an increase in overall knowledge or capability in a field of science or technology; or
- appreciably improve an existing product or process through scientific or technological changes; or

¹ <http://www.bis.gov.uk/files/file52026.pdf>

- use science or technology to duplicate the effect of an existing product or process in a new or appreciably improved way (e.g. a product that has similar performance characteristics to existing products, but is built in a fundamentally different manner making it cheaper, more efficient etc.).

The similarities are not coincidental, obviously, but the fact that GR&D assessors are already making assessments on a similar basis to the tax credit scheme bodes well.

4 Proposed operational aspects

The majority of pre-approval applications could be assessed by the teams in the seven specialist units. In cases of doubt – perhaps for an esoteric technology or borderline or very large case – the specialist units could call upon external expertise.

There is already a network of specialist technical advisors in place for the GR&D scheme. The network was established under an OJEU competitive tender procedure early in 2009 by the NWDA on behalf of all eight English RDAs.

The TSB, which intends to re-launch the GR&D scheme on a national basis, has its own separate network of assessors but this is fully loaded.

The GR&D applications contained detailed project proposals which, as the pre-approval requests are likely to be, were highly technical in their nature. GR&D proposals covered a diverse range of technologies and often cut across a number of sectors. The existing network of technical advisers is qualified by broad sectors and covers:

- life sciences;
- biotechnology;
- food science;
- information and communication technology;
- advanced engineering;
- manufacturing;
- materials;
- construction;
- energy;
- environment.

The role of the technical adviser was to advise the RDAs on the extent to which proposals met the scheme appraisal criteria. All of the advisors therefore have considerable practical experience of

- assessing actual complex proposals – most have dealt with between 50 and 100 proposals since the scheme's inception;
- dealing with tricky definitional questions which arise from interpretation of the DBIS guidelines.

In our experience the R&D definitions contained in the guidelines issued by BIS are broadly effective for recognising genuine R&D activity. We believe that they are capable of further refinement, however, and believe that this could best be done by a working group composed of those who have been engaged in applying the guidelines in practice. This group could perhaps include both HMRC specialist units and GR&D technical advisors.

The GR&D assessors work for a fixed price of around £400 per assessment and are regionally distributed so could be selected by specialist offices (with whose spatial distribution the RDA regions broadly correspond) and so combine sector specific knowledge and regional familiarity.

The call-off contract which maintains this experienced GR&D assessment network could be novated to HMRC by the NWDA.

The expert external assessments would not only be helpful in guiding HMRC specialist units to pre-approve applications but also, when assessors' comments are passed on, could help applicant companies improve their R&D planning and execution.

In our view further reducing the levels of uncertainty associated with R&D Tax Credits through the introduction of a streamlined pre-approval mechanism would be highly effective in promoting additional investment in R&D by the smallest companies; since it is this group which is most deterred by the current residual uncertainty in the system.

5 Conclusions

We believe that the GR&D scheme both provides a model for the cost-effective assessment of pre-clearance applications and, also, comprises a cohort of expert assessors that could be redeployed for this purpose.

Technologia

The best of both worlds for the public sector

From its origins as a spin-out from a leading product development consultancy, Technologia is developing its own skill base in policy consulting, innovation support, business case development, appraisal of R&D propositions in technology, and due diligence. It has access to an extensive network of experts in specific technologies and markets. Technologia, like its clients, can truly have the best of both worlds.

We believe our distinctive name brings clarity to our market position and our market proposition. We continue to help public sector clients achieve their objectives through an intelligent engagement with technological change.

TECHNOLOGIA

Technologia Ltd
Harston Mill
Harston
Cambridge
CB22 7GG
UK

T. +44 208 690 9164