

Press Release

MMP Tax Ltd
response to the Summer Budget 2015
Disappointment for tech businesses as
Chancellor erodes R&D Tax incentives for SMEs
Universities and Charities are denied access
Video Games tax relief also takes a dive

for immediate release
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MMP Tax sounds a note of caution following the Chancellor's Summer Budget, as disappointed SMEs, that form the cornerstone of innovation in the UK, see their incentives eroded by the announced changes.

Technology Tax Relief schemes are seen as a crucial part of the overall plan to underpin technology and innovation in the UK; R&D Tax Credit claimants received £1.4 billion of support last year¹.

However the level of spending on Research and Development as a percentage of overall GDP is still low when compared to other major European nations, notably Germany and France. The European target for R&D spending as a percentage of GDP is 3%². The UK's R&D spending level at 1.6% is a long way behind Germany's 2.8% and France's 2.2%. R&D spending also varies widely across the country, the lowest is in Wales at £571 million and the highest is in the South East of England at £6 billion.³

Nevertheless, there is some positive news - to support the government's objective of a more competitive UK corporation tax system, the Chancellor announced a reduction in the main rate of corporation tax from 20% to 19% for the year beginning 1 April 2017; with a further reduction from 19% to 18% for the year beginning 1 April 2020.

This planned reduction in the main rate of corporation tax will impact **technology tax reliefs** in different ways:

Research and Development Tax Relief (RDTR)

This reduction in the main rate of corporation tax rate will lower the tax relief benefit of the Small/Medium Enterprise (SME) regime, effectively cancelling out the increase in generosity announced in the Chancellor's March budget. This is not good news for the tax paying SME tech community.

Video Game Tax Relief

This decrease in corporation tax will mean that the recently introduced Video Game Tax Relief scheme will become less generous, reducing the benefit from 18.4% to 14.4%.⁴ The overall decrease in corporation tax is to be applauded but MMP calls on the Chancellor to raise the VGTR enhancement percentage so that the generosity is at the least maintained at 18.4%.

Research and Development Expenditure Credits (RDEC)

The reduction in the corporation tax rate means the RDEC scheme becomes *more* generous for large corporates, upping the benefit to 9.02% from the 2013 benefit of 7.7%. Briefly this is derived from the 10% RDEC rate increasing to 11% and the main rate of corporation tax falling from 23% to 18%. This is better news for large businesses in the UK, but still a long way off the generosity of the equivalent regime in France.

¹ HM Revenue and Customs, Research and Development Tax Credits Statistics, 15 August 2014

² Lisbon Treaty

³ Source: Eurostat

⁴ Dependant on level of expenditure and loss or profit making position

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Research and Development Expenditure Credits (RDEC) for universities and charities

The government will also close a loophole in the RDEC legislation such that universities and charities are unable to claim under the RDEC regime. This is in line with the original intention of government policy. This will apply to qualifying expenditure from 1 August 2015, providing a short amnesty in which budgeted for tax reliefs can be claimed.

Patent Box

The difference in the corporation tax rate applied to qualifying patent profits versus non-Patent Box profits has narrowed from 13% to 8%. When the Patent Box was introduced and the corporation tax rate was at 23%, there was a significant incentive to patent and commercialise patented products due to the attractive 10% Patent Box tax rate. However with the future 18% corporation tax rate there is now less of an incentive for companies to claim under the Patent Box scheme. MMP encourages the Chancellor to maintain this incentive level and to reduce the Patent Box tax rate to 5%.

David Marshall, Director at MMP Tax Limited, commented:

“The SME community, including video games studios, which look to the government for support to grow in this tough economic environment, are being penalised by stealth due to the possibly unintended consequences of the reduction in corporation tax”.

“However, we applaud the lower corporation tax rate and the further support of large tech companies through the enhanced generosity of the RDEC.”

“MMP works with corporate clients to ensure they get maximum value from these technology tax incentives, while respecting government’s policy intent. MMP will continue to encourage the government to enhance the incentives for companies to invest in R&D and to claim the reliefs that they are entitled to”.

“Strong technology and manufacturing industries are crucial to the UK’s economic future. Tangible tax incentives that motivate these tech businesses to invest in intellectual property and R&D, continues to be an essential part of the overall strategy”.

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About MMP Tax:

MMP offer breadth and depth in the provision of specialist technology-based tax consultancy for our corporate clients. Specific areas of expertise include tax reliefs for R&D, patents, video games and animation, specialised capital allowances, and corporate investments.

At MMP we combine specialist knowledge of technology tax reliefs with practical experience in engineering and scientific disciplines. We apply these skills in a client-centric way to ensure our clients submit robust and verifiable claims.

The directors have decades of direct experience in technology tax relief from a technical and consulting perspective, in addition to wide-ranging experience in industry.

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