ASK: Deliver stability for prospective investors by providing an international, first in class, tax and fiscal incentives environment for R&D and capital investment

"R&D tax credits are the biggest bang for buck for our company" – Jaguar Land Rover[1]

Introduction

The UK already has many generous tools and incentives in the tax and regulatory environment which, when used in the correct manner, can meet the overall policy objectives of a stable and competitive business environment[2].

Our **Ask** is, therefore, not a full overhaul of the system, rather a systematic review of existing incentives[3] to ensure these targeted at key sectors (in this case health and life sciences), are easy to access and generous/flexible enough to make an impact. Most important is the need for a consistent, long-term, and cross-party approach to tax that is clearly signaled to business, within a system that seeks to reduce complexity for business. In addition, we are calling for government (HMG) to lay the foundations for greater investment and incentives to secure UK medicines manufacturing.

Our 3 key asks for the next government are:

ASK 1: R&D[4] Tax Credits – 'merged scheme'

The last 12-18 months have seen the largest number of changes to R&D incentives since the regimes' inception[5]. Of further concern, potentially, are future changes to R&D incentives[6]. At the end of 2023, HMG published draft legislation with details of a new single "merged scheme[7]."

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[1] Harrington Review, 2023

[2] Op.cit.

[3] Noting a history of consultation on what a future of R&D tax relief scheme should look like dating back, most recently to 2019, incl:. SME Cap (05/19), also HERE (05/20); data and cloud computing (07/2020); all aspects of R&D (03/2011); SME cap introduced (04/2021); R&D Tax Reliefs Report (11/21); new merged scheme (03/2023) and, Draft legislation on new merged scheme (still draft and come into force 04/24 (12/23).

[4] Question to the group: Do we need a broader definition of what constitutes R&D. Based on the fact (?) we do far more 'D' in this country than 'R' (except in pharma) – so does the incentive needs to reflect that? Help required to shape narrative please.

[5] This includes changes to the rates of relief, with the SME additional deduction decreasing from 130% to 86%, and a decrease to the payable cash credit from 14.5% to 10% (with a new rate being introduced for R&D intensive SMEs at 14.5%). At the same time, the R&D expenditure credit (RDEC) available to large companies has increased from 13% to 20%, resulting in a net benefit increase from 10.5% to 15%.

[6] Do we need to continue our call of HMG to 'fix the business rates issue' (and what is this explicitly for the HLS sector) in parallel, i.e., a company invests in Capital equipment to make itself more productive – and their rates bill goes up.

[7] Which will replace the existing SME and R&D Expenditure Credit ("RDEC") schemes

Proposed changes are, for example, proposing removing the restrictions around subsidies from being claimed, in addition to restricting the inclusion of non-UK expenditure, when using sub-contractors. Experts have indicated that the overseas restriction may have a detrimental impact, especially on SME'[8]s, who depend on multiple funding sources to drive industry leading research, in addition to disincentivising both UK and international collaboration and R&D activity across the supply chain[9].

In their short paper[10] James Cowper Kreston summarise the key issues., including the 'winners' as companies will now be able to claim costs where previously they have not been able to[11], and 'losers' for companies who choose to use overseas R&D subcontractors (see link[12])

ASK 2: R&D Tax Credits and Manufacturing[13]

Manufacturing is a capital-intensive industry, with long-term investment cycles forming the core of growth strategies across the HLS sector. The link between investment and productivity improvement is clear and it is vital, many of you have stated, that HMG does all it can to encourage investment in manufacturing (through incentives and qualifying capital incentives, e.g. 'full expensing' of qualifying capital investments - including new plant and machinery - which would apply to manufacturing machinery[14]) so we can compete with other major trading partners and rivals, and secure future supplies of home-produced medicines.

However, drawing on broader research from Make UK[15] it is evident that the UK's current tax and regulatory environment, and their effectiveness as it currently stands is unfavorable. To emphasise the point made above, this includes findings indicating that the significant changes seen across both the capital allowances and R&D regimes have not had the desired impact with 54% of businesses reporting that frequent changes to policy incentives have made it more challenging to plan investments.

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8 Note: SMEs will still be eligible to claim if they receive subsidies, i.e., just as if works are sub-contracted – 2 different concepts being merged.

9 Note: Changes are assoc'd with subcontracted activities/only be the end customer or decision maker that will be able to make the claim.

10 https://www.jamescowperkreston.co.uk/news/new-year--new-randd-tax-relief-regime/

11 e.g., a company under the RDEC scheme where it previously subcontracted an element of R&D to another company.

12 How different are the key messages/opportunities open to SMEs vs larger businesses (i.e., certain benefits not open to the latter) who may be more effective / better / capable to create their own ecosystem of suppliers and sub-contractors.

13 Question to the group – Are the riders listed in this section on manufacturing tax credits wholly necessary?

14 https://www.pricebailey.co.uk/blog/full-expensing/

15 https://www.makeuk.org/insights/reports/make-uk-and-pwc-executive-survey-2024

You have highlighted that, to date, HMG has been more focused on grant funding[16] (is this true?[17]) to encourage manufacturing investment (and mainly in the pharma sector). With some additional success from the Thames Valley reported[18], given such partnerships still appear the exception, rather than the rule, our **Ask** of HMG is to lay the foundations for greater investment and incentives to optimize operations and secure UK medicines and medical device manufacturing here in the UK.

This might also include further changes to introduce additional manufacturing tax credits, notably to push for on-shoring of critical production capacity in the UK, subject to the industry evidencing that (a) additional reliefs are required (i.e. for the UK to remain competitive), and, (b) that without these additional reliefs, investment will flow elsewhere with the associated loss of capital investment (and associated jobs) will exceed the reduction in tax receipts for the Exchequer. With the dial turned significantly for the UK and EU with the introduction of the US IRA[19] there is a need for greater flexibility now and even the EU is starting to shift its position in response to concerns[20].

Our final **Ask** is for HMG to help create the condition that will enable businesses to investment make the UK a world-leading manufacturing hub[21].

ASK 3: R&D Tax Credits and Productivity

Industry has indicated they welcome the benefits R&D tax credits bring and associated links the innovation they drive one of the proxies for productivity.

More broadly, you have consistently stated as a group that we need to fix 'the other things' that are also proxies for productivity – i.e., skills, capital investment in infrastructure and digitisation, including:

- Lobbying for the reshaping (or scrapping) of the apprenticeship levy.
- Call for a more consistent approach to and certainty in our investment in: (i) infrastructure (that spans political cycles); (ii) providing power and grid connections; (iii) multiple mobile not-spots[22]; (iv) addressing flood disruption to business, etc. Do we consider calling for (i) the Infrastructure Commission to have greater power and funding? (ii) the renegotiation of HMG's contract with private utilities/transport/telecoms companies and others to make sure they invest more in infrastructure, and (iii) ensuring digitisation is brought into R&D tax credits, incl. expanding the scope of qualifying expenditures for R&D Tax Credits to include data and cloud computing?

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[16] https://www.pharmaceutical-technology.com/news/uk-boosts-life-science-innovation-with-277-million-funding/ - see also find a grant.

[17] Is this true? Or does HMG prefer to give loans?

[18] See Harrington Review, section 268, page – 104 -

[19] See: Frontier Economics blog

[20] See: HERE.

[21] https://www.owenmumford.com/us/optimizing-operations-creating-world-leading-manufacturing-hubs

[22] https://researchbriefings.files.parliament.uk/documents/SN07069/SN07069.pdf