Government launches consultation on Above the Line Research and Development credit

Wednesday 28 March, 2012

The Government has today launched a consultation on an Above the Line (ATL) Research and Development (R&D) credit. The Government is committed to creating the most competitive tax system in the G20 and R&D tax incentives play an important role in this ambition and in supporting our strategy for growth.

The Government announced in the autumn of 2011that it would introduce an ATL R&D credit for large companies. This consultation seeks the views of businesses and other stakeholders on how such a credit should work, ahead of its introduction in April 2013.

The Government wants an ATL credit that works well for all business, provides the best mechanism for supporting UK R&D investment and is simple for both business and HMRC to administer.

David Gauke, Exchequer Secretary to the Treasury, said:

The Government is committed to encouraging research, development and innovation in order to achieve higher growth. We will ensure that the UK is an internationally competitive environment for all companies to innovate.
The ATL credit for R&D will encourage large company research and development, and ensure that the UK continues to be one of the most attractive places in the world to undertake R&D.

These changes come after recent reforms to improve the R&D tax credit for small business, and to make the SME scheme significantly more generous. Following consultation, the Government is not proposing to change the existing SME R&D tax credit to an ATL credit and the level of support under the small business scheme will not be reduced as a result of these changes.

Notes for Editors

1. The consultation document can be found on the HM Treasury at:
www.hm-treasury.gov.uk/consult_above_line_credit_rd.htm
2. The consultation will close on 29th June 2012.
3. Budget 2012 announced that the minimum rate for the ATL credit would be 9.1% before tax. It also announced that loss-making companies would be able to claim a payable credit. This compares to the existing R&D tax credit where businesses must wait until they enter profit before they benefit from Government support. Final rates for the ATL credit, including for the payable part of the credit, will be decided following consultation.
4. The current R&D relief is a superdeduction which reduces taxable profits. The ATL credit will instead be calculated directly as a percentage of the companys R&D spend and will be payable to loss makers. The ATL credit will be able to be recorded in companies accounts as a reduction in the cost of R&D - i.e. above the tax line. This will bring UK support for R&D into line with other countries (France, Canada, Ireland).
5. The small company R&D tax credit rate was increased from 175 per cent to 200 per cent in 2011 and then to 225 per cent from April 2012. Finance Bill 2012 will also see the removal of two restrictions on the SME scheme, following the outcome of the previous consultation.
6. The existing R&D tax credit schemes provide around £1 billion a year support to around 9000 companies carrying out over £10 billion of R&D expenditure.

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