



Alma Consulting Group
March 2008

2008 Budget Alma comment: "Budget reveals thirst for UK innovation – but Darling could do better"

Alma Consulting Group takes you through the key elements of the 2008 Budget announcements affecting R&D:

- R&D tax credit enhancement is set to increase from 150% to 175% for SMEs, and from 125% to 130% for large companies. This means a profit-making SME spending £100,000 on qualifying R&D will now be eligible for a maximum tax saving of £22,500 when the changes come into effect on April 1st. Prior to the Budget, the saving would have been £15,000. Larger companies spending the same amount will see a £1,500 increase for a maximum tax saving of £9,000
- Companies in difficulty that are unable to produce accounts on a 'going concern' basis will be prevented from claiming the R&D tax credit
- A cap of €7.5m per single R&D project has been introduced for claims made by SMEs
- The Government is set to change the definition of an SME following the Finance Bill 2008 in order to include more businesses under the SME umbrella. However, because it affects state aid rules, the Treasury will have to gain EC approval for the new definition. The criteria for qualification as an SME will change to allow up to 500 employees (previously 250), to allow turnover up to €100m (previously €50m) or an annual balance sheet total up to €86m (previously €43m).

Our comment:

David Marshall, Alma Consulting Group Director, says: “This is certainly a step in the right direction towards making the UK a hub of high tech research, and for stemming the flow of UK manufacturing companies that are chasing lower labour rates by relocating R&D facilities abroad. However, there’s still a long way to go in order to bring it into line with existing schemes in other countries.”

“While the improvements announced today point to a Government thirst for UK innovation, there are still key issues that the Chancellor has failed to address – for instance, software development for gaming consoles is still specifically excluded from R&D tax breaks – an incredible omission when taking into consideration the size and potential of this flourishing industry. The Government could also take an imaginative leap forward by allowing enhanced tax relief on legal patent registration costs. These are the sort of initiatives that need to be pursued by the Government if the UK is to offer a globally competitive R&D tax scheme to the business community.”

“Furthermore, the Government has taken a step backwards by introducing more complexity into the scheme with the single project cap and restriction on companies in difficulty. What, for instance, defines a ‘single project’? And many small companies that benefit enormously from the R&D Tax Credit are perpetually operating on a hand-to-mouth basis whilst in development mode which would not satisfy the going concern criteria.

Verdict:

Whilst Alma welcomes the increasing generosity of the scheme, it questions whether the additional benefits will sufficiently compensate for the additional complexity and detail of R&D tax credits for the average SME.