

BIA submission: PAC inquiry on management of tax reliefs

June 2020



This short submission is limited to R&D tax credits

The BioIndustry Association (BIA) is the trade association for innovative life sciences in the UK. Our goal is to secure the UK's position as a global hub and as the best location for innovative research and commercialisation, enabling our world-leading research base to deliver healthcare solutions that can truly make a difference to people's lives.

Our members include:

- Start-ups, biotechnology and innovative life science companies
- Pharmaceutical and technological companies
- Universities, research centres, tech transfer offices, incubators and accelerators
- A wide range of life science service providers: investors, lawyers, IP consultants, IR agencies

We promote an ecosystem that enables innovative life science companies to start and grow successfully and sustainably.

The small and large business R&D Tax Credit schemes are often cited by BIA members as the most valuable form of innovation support. Tax credits provide a minimal-bureaucracy system that rewards and amplifies companies' own investment in R&D. Continuing them and ensuring they function as intended is critical to maintaining the UK's attractive fiscal environment for R&D investment and achieving the Government's stated ambition to raise R&D investment to 2.4% of GDP by 2027 and make the UK the global hub for life sciences.

Governments around the world are keen to attract high-value, R&D-intensive industries to their shores. These businesses generate many spill-over effects, including new technologies, productivity gains from process innovation, down-stream manufacturing jobs, and the co-locating of regulatory, legal, and financial services. Moreover, the COVID-19 pandemic has brought into sharp focus the value of a vibrant domestic life sciences sector underpinned by a competitive business and fiscal environment.

Strong evidence of the positive impact on business behaviour that R&D tax credits can drive has been found in the results of a quasi-experimental study by the Saïd Business School at the University of Oxford¹. Before 2008, SMEs were identified as having 250 employees or less, but in 2008 this limit was raised to 500. This provided a cohort of companies (with a headcount of between 250 and 500) that overnight became eligible for the more generous SME scheme. In theory, nothing else should have changed, meaning the change in scheme was an isolated variable.

Comparing the newly-classified SMEs on the more generous scheme to the companies that continued to be classed as large, the researchers found that those now in receipt of a more generous R&D tax credit increased their R&D investment by 33%. The more generous R&D tax credit reduced the cost of doing R&D

¹ Irem Gucer and Li Liu, Effectiveness of Fiscal Incentives for R&D: Quasi-experimental Evidence, American Economic Journal: Economic Policy 2019, 11(1): 266–291 <https://pubs.aeaweb.org/doi/pdf/10.1257/pol.20170403>

for the company by 22%, so the increase of 33% investment represents incentivised behaviour change, not just reallocation of funds. Furthermore, companies invested £1 for every £1 foregone in tax to the Exchequer, so the policy was cost neutral. R&D-intensive companies and young firms responded most strongly to the tax change.

The Government's focus on raising public and private R&D investment and strengthening the life sciences sector are critical to the UK's economic and social recovery from COVID-19. Tax expenditures such as R&D tax credits are an important part of the policy mix required to achieve these objectives. Maintaining the international competitiveness of the UK's tax regime will ensure the UK remains a global destination for life sciences investment and so we welcome Government commitments to consult on the inclusion of expenditure on data as an eligible cost for R&D tax credits, ensuring the regime is fit for science in the 21st Century.

HMRC has an incredibly important role in supporting the life sciences sector through the fair and timely processing of R&D tax credit claims. The target is to process 95% within 28 days of receipt, which is a welcome ambition. A significant backlog in claims accumulated in 2018/2019 that was only cleared in September 2019. This caused significant difficulties for businesses affected. The BIA and its members urge the Government to ensure HMRC is properly resourced to allow it to process claims efficiently in support of the sector.

COVID-19 caused fresh disruption and delays to claim processing but the BIA is grateful for a clear concerted effort by HMRC to adapt to the new working situation and catch up on delays. At the time of writing (8 June 2020), the HMRC is meeting its processing target.

We welcome the Public Account Committee's scrutiny of the policies such as R&D tax credits and hope that this evidence is helpful in your inquiry. We would be happy to provide further information as required.

For any further information on the contents of this submission please contact Dr Martin Turner, Head of Policy and Public Affairs, by emailing mturner@bioindustry.org