Confluence Tax LLP

Autumn Statement 2014

3 December 2014

The major changes relevant to technology and biotechnology companies announced in the Autumn Statement are set out below. We will get further details over the next few days.

R&D Tax Credits

i. Increase in rates

The SME and large company R&D tax credit rates are uplifted from 1 April 2015.

For SMEs the rate of additional tax deduction is increased from 225% to 230% of R&D spend. This is therefore a small boost to profitable companies. For loss-making companies the rate of payable credit is currently determined by multiplying this 225% by 14.5% to arrive at a maximum 32.6p refund for every £1 of R&D spend. Whether the payable credit rate will remain at 14.5% or be moved downwards (as has happened in some previous years) is unknown at present.

For those claiming large company 'Above the Line' R&D credits, the credit increases from 10% of R&D spend to 11%. The payable credit rate therefore is uplifted from roughly 8p per £1 of R&D spend to 8.8p.

ii. Advance Assurance

An Advance Assurance process is to be introduced for first time SME R&D claimants, together with other measures intended to assist small businesses in claiming. This is a welcome move, following a previous successful pilot scheme with which we were heavily involved.

iii. Sale of R&D materials

From 1 April 2015 R&D costs will no longer include materials which are included in sold products. The sale of prototypes and demo kits could therefore affect R&D claims.

Entrepreneurs' Relief ('ER')

The scope of Entrepreneurs' Relief ('ER') is further extended. Gains which would have benefitted from ER but are deferred into EIS or Social Investments will now obtain ER when the new investment is finally sold. This will have effect for deferrals on or after 3 December 2014.

Anti-Avoidance

New targeted measures will be introduced today in order to tackle particular tax avoidance schemes. This includes the first specific anti-avoidance measure regarding entrepreneurs' relief, preventing such relief on goodwill transfers by individuals into a related company.

The OECD has an ongoing BEPS ('Base Erosion and Profits Shifting') project, which is attempting to update global tax concepts regarding where international activity is taxed. The UK Government is already attempting to introduce some of these concepts – see for example the intended patent box changes announced recently by the UK and Germany. In this Autumn Statement a new 'Diverted Profits Tax' was announced, with effect from 1 April 2015. This is to be introduced at a rate of 25% on the profits of UK activities of multinationals which are artificially diverted from the UK. Crucial questions remain, including whether SMEs are exempt and how 'artificial diversion' is to be determined.

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