BIA policy submission
01 May 2025

Enhancing HMRC's ability to tackle tax advisers facilitating non-compliance

R&D tax credits have been critical to the growth and success of UK life sciences and biotech. BIA members regularly cite them as the most important source of governmental support. We therefore very much welcome the Chancellor's commitment to and recognition of the scheme's importance to science and technology companies. R&D tax relief is a vital policy lever for delivering the Growth Mission and Industrial Strategy, and HMRC has a critical role in their effective delivery. We are therefore supportive of proposals that help reduce fraud that is resulting in taxpayers' money being directed to companies not contributing to economic growth.

How R&D tax relief helps deliver economic growth

Start-ups and scale-ups are key drivers of innovation in the UK, and are thus critically important to economic growth. In 2021 they represented 65% of the global drug development pipeline, with an additional 7% being developed by them in partnership with larger firms.[1] For these pre-revenue companies, R&D tax reliefs reduce the cost of investing in R&D by providing cash payments, so that the level of investment required is more proportionate to the level of risk. This incentivises private – often venture capital – investment into innovative start-ups and scale-ups, making R&D tax reliefs an important component in the delivery of economic growth.

Existing studies commissioned by HMRC show that R&D tax reliefs deliver £3 of private R&D investment for every £1 of tax foregone, which is already a positive return on investment. However, it is likely that the current evidence base significantly underestimates the impact of R&D tax reliefs in cutting-edge sectors like life sciences, as it considers all companies eligible for R&D tax relief together, rather than considering the unique characteristics of certain sectors – such as high-growth and agile businesses (often venture capital backed) that are rapidly building the industries of the future. This suggests that R&D tax reliefs are even more crucial than current data implies.

[1] IQVIA: Emerging biopharma's contribution to innovation. (2024).

The importance of maintaining integrity in the R&D tax relief schemes

We recognise the government's concerns around fraud within the R&D tax relief system. It is a considerable barrier to a fair, effective, and efficient scheme that delivers value for the taxpayer and meets the policy objective of driving economic growth by incentivising investment in R&D. Moreover, in the recent past, cuts to the rate of relief and other changes to combat fraud have inadvertently harmed the life sciences sector – despite the fact that the vast majority of fraud/non-compliance is happening in other sectors[2] – whilst making the UK less competitive for global investment. Notwithstanding the exceptions, the PAYE/NI Cap and restrictions on overseas R&D have disproportionately impacted biotechnology companies given structural requirements necessitating significant levels of work to be contracted out to specialist providers and clinical trials that must take place overseas due to patient populations or other unique circumstances.

On this basis, the BIA is very supportive of any measure that clamps down on non-compliance within the R&D tax relief scheme, providing that legitimate claims and compliant sectors are not negatively impacted. The BIA considers that introducing measures to make it easier for HMRC to gather information from tax advisors would be helpful to ensure that anti-fraud measures are correctly targeted, though regardless of approach, it is imperative that the efficiency and effectiveness of the system is preserved.

More effective and targeted anti-fraud measures would allow the government to cut the fraudulent waste of taxpayers' money in ways that do not harm genuine law-abiding companies that have been previously adversely affected by previous anti-fraud measures.

If effective anti-fraud measures are introduced and significant savings are achieved, the BIA hopes that the government will consider reviewing the rate of R&D tax relief to introduce an uplift to ensure that R&D tax reliefs remain internationally competitive and growth-boosting, in a cost neutral – or even cost negative – way. Ultimately, it is hoped that an uplift could be considered to reverse harmful cuts that reduced support for start-ups and scale-ups by the Conservative government, which Labour opposed in Opposition at the time.[3]

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[2] HMRC: HMRC's approach to Research and Development tax reliefs. (2023)
[3] BIA: Chancellor gives boost to medical innovation and life sciences industry in Spring Budget. (2023)