

HMRC

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Research and Development tax relief advance clearances

This is the BVCA's response to the HMRC consultation on R&D tax relief advance clearances. The consultation was published on 26 March 2025 and our response was submitted, via an online form on the UK Government website, on 22 May 2025.

Question 9: Were you aware of the advance assurance scheme before this consultation?

Yes – our members were aware of the advance assurance scheme.

By way of background, the British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private capital industry in the UK. We represent UK-based venture capital, private equity and private credit firms, as well as their professional advisers and investors. As such our members would not generally claim R&D relief in their own right, rather they invest in companies claiming that relief. Our members therefore have experience of a wide range of companies that have sought R&D relief, and are well-placed to comment on the difficulties they have encountered. We provide more information on these experiences in our response to question 30 below.

Question 10: Have you or your clients used the current advance assurance scheme?

Our members' experience is that the current advance assurance scheme is not widely used.

Question 11: If you or your clients have used the current advance assurance scheme, please tell us if and how this met your needs.

BVCA members' experience is that the current scheme is rarely used and when it is, it does not meet the needs of most companies or investors. The scheme is seen as limited in scope, and the fact that (as stated in the consultation document) only around 80 companies used it in 2023/24 out of thousands of potential applicants suggests that it is not fit for purpose.

Another factor is that there is a perception that applying for advance assurance is like voluntarily opting into an HMRC investigation. Rather than providing reassurance, the service is viewed as likely to trigger an HMRC enquiry. Enquiries are typically lengthy, involving a prolonged period of uncertainty which is particularly damaging for small and growing companies seeking clarity for investment or business planning purposes.

Question 12: If you or your clients have used the current advance assurance scheme, please tell us about what worked less well in the process.

From our members' experiences, several aspects of the current advance assurance scheme have proven challenging in practice.

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Firstly, the scheme has limited applicability for growth stage companies. It often excludes companies beyond the very early stages, even if they remain highly innovative and R&D intensive.

Second, the application process is seen as overly complex and administratively burdensome. It requires significant technical documentation, making it resource intensive for start-ups and scaling companies, potentially discouraging engagement.

In some cases, companies that have been granted advance assurance later receive HMRC enquiries that question the same activities previously approved. This has undermined trust in the scheme as it does not always provide certainty to investors and businesses.

Lastly, the time taken to respond to applications for advance assurance can be significant. Delays can impact fundraising timelines where investors are seeking certainty about R&D tax eligibility as part of due diligence, potentially impeding the ability of innovative start-up businesses to access much needed capital.

Question 13: For those who are aware of the current advance assurances, but chose not to use them, what were the reasons for this?

For the reasons outlined above in our responses to questions 11 and 12, BVCA members find that companies have generally chosen not to use the current advance assurance scheme. In particular, the limited scope, perceived link to HMRC enquiries, long timelines, and lack of practical benefit make the scheme unattractive and impractical for most companies and investors. The process is seen to not provide the clarity, speed, or confidence needed to support investment decisions in innovative businesses.

Question 14: Is the current focus in advance assurances on treatment of a whole claim right or should it focus on a particular issue or number of issues in a claim? (please select)

- focus on the whole claim
- focus on one particular issue in the claim
- focus on more than one particular issue in the claim
- other (please specify)
- In some cases it would be highly beneficial if it were possible to obtain a specific assurance about certain technical aspects of a potential claim, such as the R&D intensity condition, PAYE cap, qualifying overseas expenditure and SME status.

Question 15: Which issues in R&D claims are of the most concern?

As indicated by our response to question 14, in the context of advance assurances, it is the technical aspects of claims that generally give rise to the most concern, such as whether a claimant meets the R&D intensity condition, the PAYE cap, qualifying overseas expenditure and SME status.

Question 16: Do you have any views on the current criteria for eligibility for advance assurances?

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As indicated above, our view is that the eligibility criteria for advance assurance are too narrow and risk excluding innovative businesses that could benefit from early certainty.

Question 17: Can you foresee circumstances in which paid-for voluntary assurances might be attractive?

We can envisage circumstances in which businesses might be willing to pay for an expedited service, in return for a commitment that the process would be completed within a fixed period. This could be attractive for complex R&D claims or in situations where greater certainty is needed ahead of an investment. The success of this option would be dependent on businesses having confidence that the new clearance process works well, and also on the level of the proposed charge. One option could be for any “fee” to be deducted from the final qualifying expenditure calculation, to avoid an impact on the cashflow of companies which may not yet be making revenue.

Question 18: Do you agree that a voluntary service could be focused on growing and high-potential companies as well as sectors set out in the government’s Industrial Strategy?

A voluntary clearance service targeted at high-potential companies could provide valuable certainty for those planning long-term R&D investment. Introducing this alongside the existing focus on the sectors in the government’s Industrial Strategy would also ensure there is public support targeted at areas of economic importance.

Question 19: If not, at which companies should a voluntary service be focused?

N/A

Question 20: Do you agree there is a minimum expenditure below which significant R&D does not take place?

It is difficult to identify a minimum level of expenditure that is required for significant R&D activity. We would, however, support the reintroduction of a minimum expenditure threshold for claiming R&D relief, as we understand that the majority of fraud and errors occur in very small claims, requiring a disproportionate use of HMRC’s compliance capacity. A threshold could help reduce the number of spurious claims and allow HMRC to target its resources at helping to improve the long-term stability of the regime.

Question 21: If yes, please give that level (in thousands)

The consultation document mentions a threshold of £25,000 and we agree that this seems reasonable. At this level the cash value of the associated R&D claim is so low that affected businesses are likely to be best supported through grants targeted at small innovative businesses, rather than by making R&D claims which tie up HMRC resources and undermine the efficacy of the entire system of R&D tax relief.

Question 22: Do you agree that the assurances should be mandatory for some?

We understand the rationale behind making advance assurance mandatory in certain cases to address fraud and illegitimate claims. However, there is also a concern that mandatory assurance could create undue administrative burdens and slow down legitimate claims from innovative companies. As such, we believe any requirement must be carefully targeted and proportionate.

Question 23: If so, what factors should be considered in determining who must seek assurance?

In determining which companies must seek mandatory assurance, factors that could be considered include:

- Company size
- Sector
- Claim history
- Nature and complexity of R&D activity

This approach should be carefully balanced as to avoid overregulation and unnecessary barriers for genuine claimants or overburdening innovative businesses.

If the Government is minded to introduce a system of mandatory assurances, we would suggest limiting this to first time claimants in sectors not traditionally associated with R&D activity. For practical reasons, any mandatory assurance system would need to be narrowly targeted so that HMRC is able to resource it effectively.

Question 24: How can HMRC best recognise the role of agents in designing a clearance service?

We would, in principle, support a focus on regulated practitioners but would question the efficacy of limiting the service to certain categories of agent. This is because, for good reasons, the service would need to be available for companies to use directly (ie without the use of an agent), which means that unauthorised agents would presumably still be able to use the service, acting in the name of their client.

Question 25: Do you see value in pre-activity advance assurance?

There may be value in pre-activity advance assurance in some circumstances.

Question 26: If so, what sorts of issue might be raised with HMRC?

Early engagement could help identify areas of uncertainty before R&D work begins, potentially providing greater reassurance to start-ups about the support they can expect. However, care would be needed because if engagement takes place too early, there is a high likelihood that companies' plans may change.

Question 27: What sort of information might companies be able to provide to HMRC at this stage?

Companies may be able to provide a summary of their business plans and of their intended R&D activities. In some cases, this early discourse could help companies gain clarity before committing

resources but also enable HMRC to spot outliers and reduce compliance risks later in the process. However, as we have already indicated, if these conversations happen too early, their usefulness may be limited.

Question 28: Which of the options A to C do you think would be most useful? (please rate all options: not useful, somewhat useful, useful)

We would view Option B as the most useful. Option A has the disadvantages we have outlined in our responses to questions 27 and 28, ie that at a very early stage companies may still be developing their plans. Option C (seeking assurance after the claim) would seem to involve companies needing to carry out the same work twice: once to make the claim and then again to seek assurance.

Question 29: Please give reasons.

Please see our response to question 28.

Question 30: Please give any other suggestions you have for useful changes to R&D relief administration, particularly those that would address error and fraud.

Efficient administration is essential for a system of R&D relief that can compete with the equivalent regimes offered by competitor jurisdictions, including, for example, well-regarded schemes in the US, Canada, France and Denmark. Our members' current experience is one of increasing concern: the need for additional information forms is seen as making it harder to make a claim, there is a perception of an increased number of time-consuming and destabilising enquiries, and overall delays in processing claims remain excessive.

As mentioned in our response to Question 9, our members do not generally claim R&D relief themselves, but invest in companies that do. R&D relief is of such importance to start-up businesses that the perceived difficulties in making claims risk reducing the attractiveness of UK companies for private capital investment, particularly for the many firms which can choose to invest in companies based in other countries instead. We would therefore urge the Government to address these issues as a matter of high importance.

For a system of advance assurances to be fit for purpose, we consider that it is essential for there to be an effective mechanism for companies to appeal a negative decision. We would also call on HMRC to be bound by the outcome of an advance assurance application (provided of course that there has been no fraud by the company during the application process), to avoid the current position whereby businesses have little faith that the outcome of an advance assurance will be meaningful. Additionally, for any new system of clearances to be effective it must be possible to receive an advance assurance within a reasonable defined timescale.

The consultation makes reference to AusIndustry. Our members report very positive experiences with this body, as AusIndustry can devote a high level of technical expertise when assessing whether a business is carrying on genuine innovative activity. They are not part of Australia's tax authority and their responsibilities extend to, for instance, assessing the merits of applications for innovation-focused grants. We would encourage the Government to investigate whether a similar model might

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work well in the UK, given that many of the problems experienced by our members in seeking R&D credits stem from HMRC being unable to resource the depth and breadth of technical expertise needed to assess claims within a reasonable timescale.