R&D Tax Credits Survey - the Results

January 2023

Key Findings

Our survey of 267 members of the tech ecosystem, the vast majority of them startup founders, shows that there is significant concern about the changes to R&D tax credits announced in the November budget. Our key findings are below.

76% of respondents strongly agreed with the statement: "I expect the cuts to severely impact my startup".

89% of respondents strongly agreed with the statement: "If the cuts go ahead as planned I believe the UK will be made significantly less attractive to startups and investors".

66% of respondents strongly agreed with the statement: "I am concerned I will be forced to raise investment earlier and potentially at worse terms".

Respondents were most supportive of any changes including a simple process to apply for claims, clear definitions of what is and isn't in scope, and short turnaround times for applications.

The estimated mean reduction in savings for respondents' firms under the proposals was **£100,363.**

Respondents were most concerned about the proposals introducing a reduced amount that startups can claim, followed by unclear terms of what can and cannot be included, there being a complex process to apply, and slow response and payment times for applications.
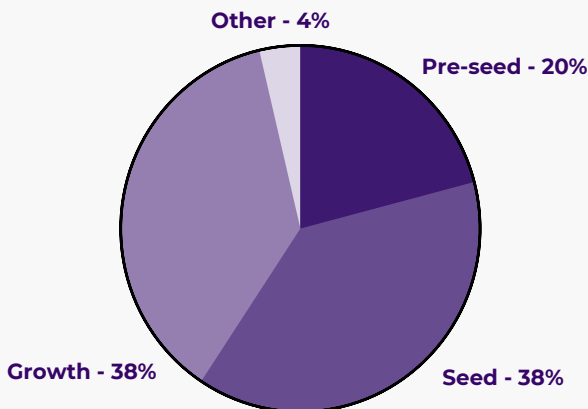
Full Survey Results

Background

Following the announcement of changes to the R&D Tax Credit scheme in the Autumn Statement in November 2022, Coadec heard a significant amount of concern from the UK's tech ecosystem about the negative impact this would have on startups. To explore the issue further, Coadec launched a survey asking startup founders about their experience of the current scheme, and what the proposed changes would mean for them.
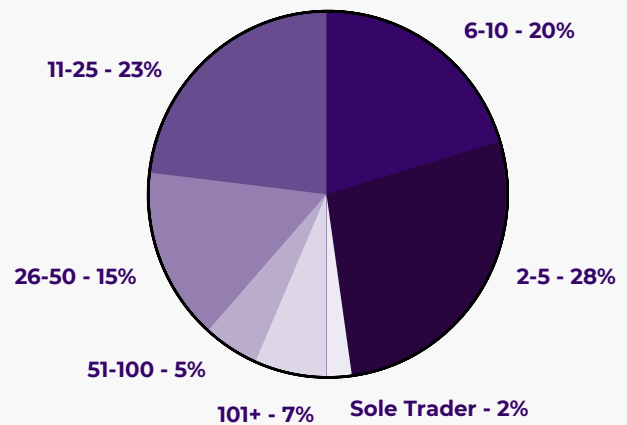
267 responses were collected - with the demographics listed below:
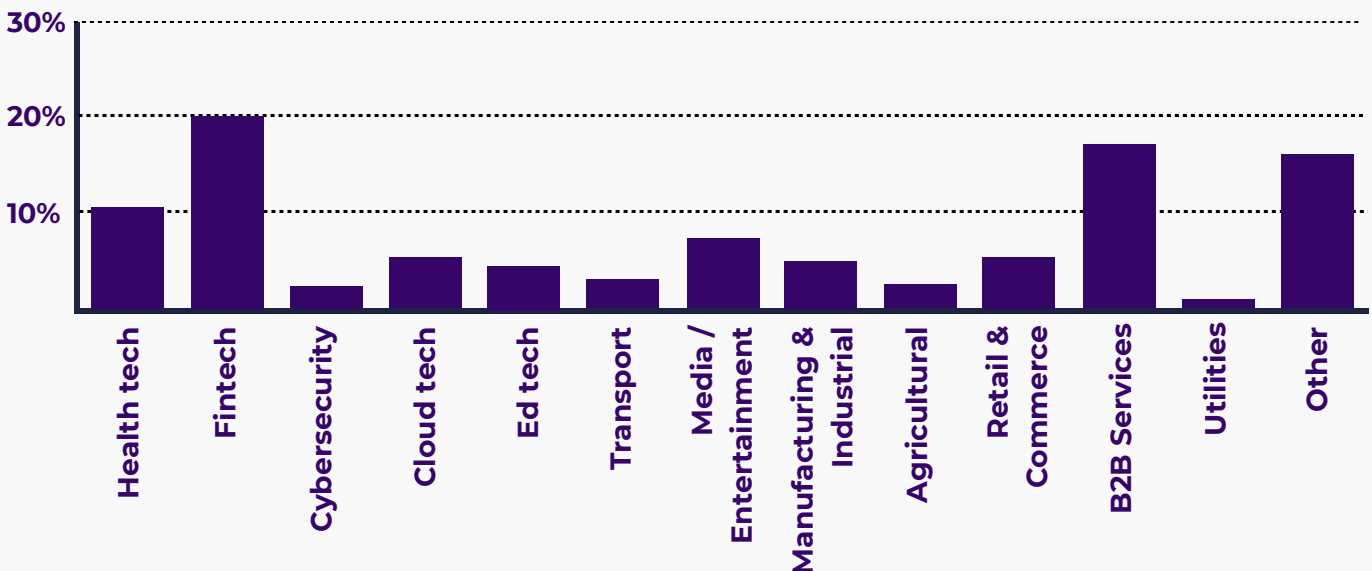
Respondents

Growth Stage

Other - 4%
Pre-seed - 20%
Growth - 38%
Seed - 38%

Number of Employees

6-10 - 20%
11-25 - 23%
2-5 - 28%
26-50 - 15%
51-100 - 5%
101+ - 7%
Sole Trader - 2%

Sector

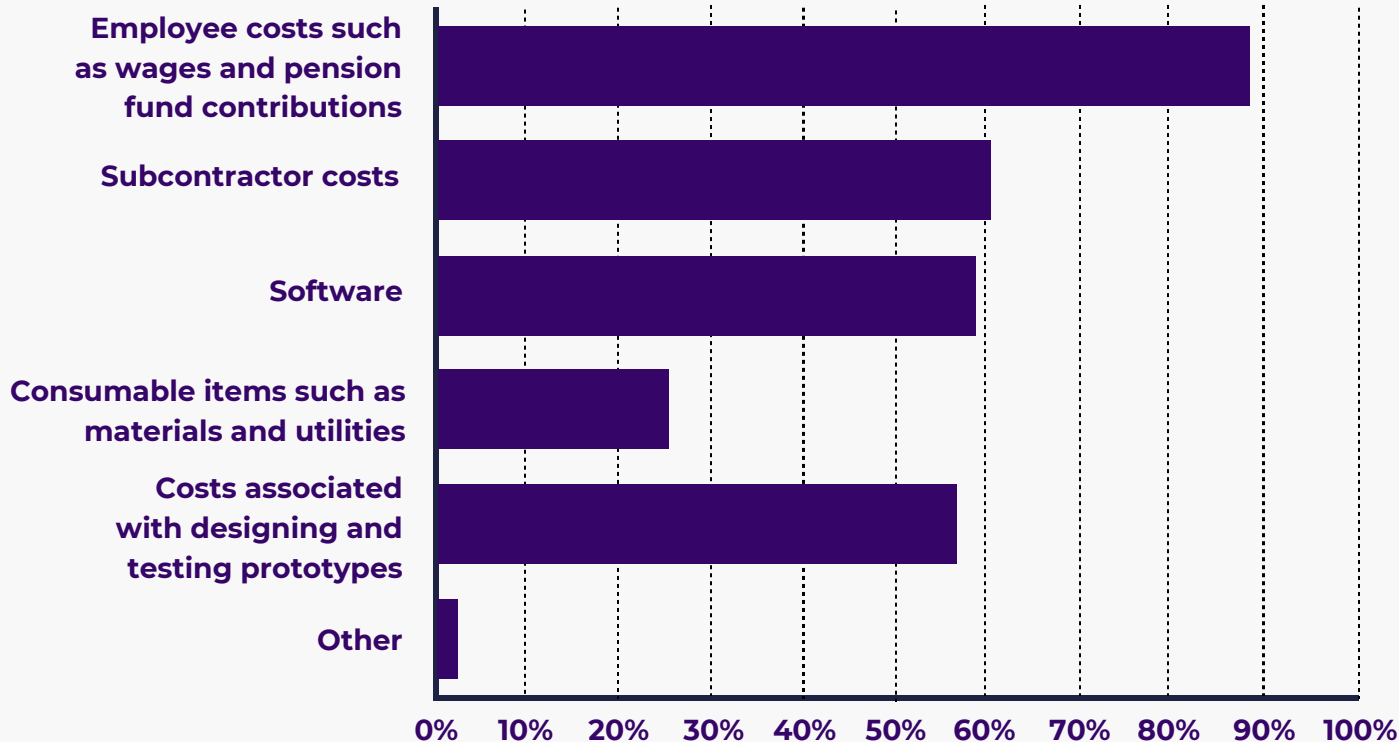| Sector	%
Health tech	~11%
Fintech	~20%
Cybersecurity	~3%
Cloud tech	~6%
Ed tech	~5%
Transport	~4%
Media / Entertainment	~8%
Manufacturing & Industrial	~6%
Agricultural	~3%
Retail & Commerce	~6%
B2B Services	~17%
Utilities	~1%
Other	~16%

What do you use R&D tax credits for?

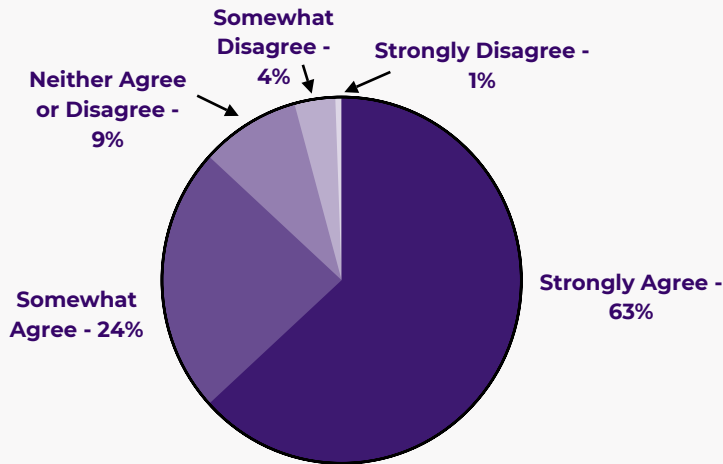Respondents could pick as many responses as applied to them:

The Current Scheme

Respondents were asked to rate their current experiences of using R&D tax credits, on a scale of 1 - 10, where 10 is a great experience. The mean result was 6.7.
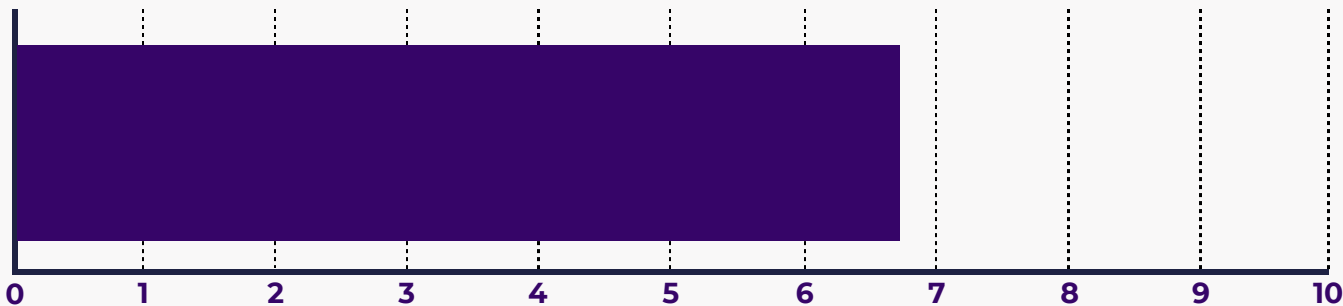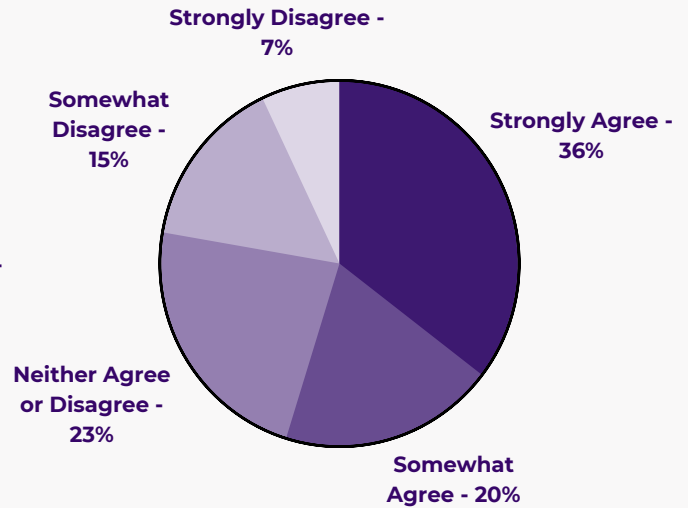
Respondents were then asked to what extent they agreed with the below statements.

'It would not have been possible to build my firm to where it is today without the support of the current R&D tax credit system.'
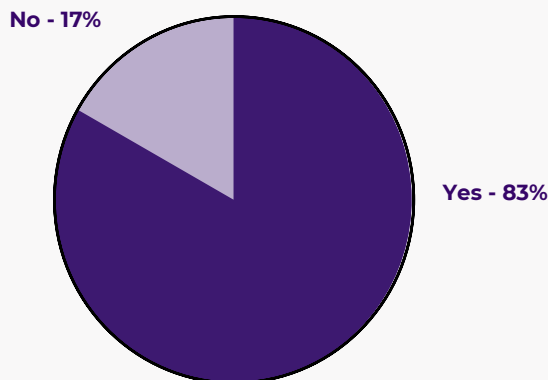
Somewhat Disagree - 4%
Strongly Disagree - 1%
Neither Agree or Disagree - 9%
Strongly Agree - 63%
Somewhat Agree - 24%

'I have experienced delays in HMRC processing and paying our tax credits.'

Strongly Disagree - 7%
Somewhat Disagree - 15%
Strongly Agree - 36%
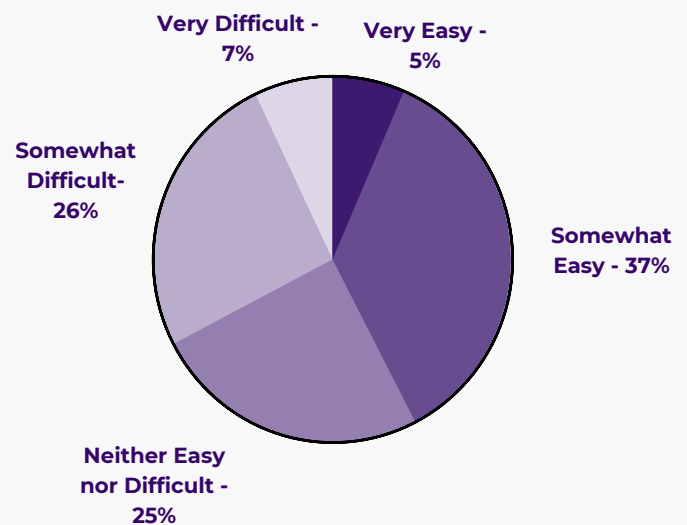Neither Agree or Disagree - 23%
Somewhat Agree - 20%

Respondents were asked, if they had ever used an advisor to help them navigate the R&D tax credits process, whether it would have helped to have a regulatory mechanism to quickly tell which advisor had high standards and was effective. Finally, they were asked to assess how easy or difficult the process of applying for R&D tax credits was as a whole.

Would a regulatory mechanism that assesses R&D tax credit advisors have helped?

No - 17%
Yes - 83%

Overall, how did you find navigating the R&D tax credit process?

Very Difficult - 7%
Very Easy - 5%
Somewhat Difficult - 26%
Somewhat Easy - 37%
Neither Easy nor Difficult - 25%

Proposed Scheme Changes

Following information about the changes proposed in the November Budget, which Coadec estimates will see startups lose between 30-40% of their current savings from R&D tax credits, respondents were asked to estimate how much their startup would lose over a year due to the proposed changes to the scheme.
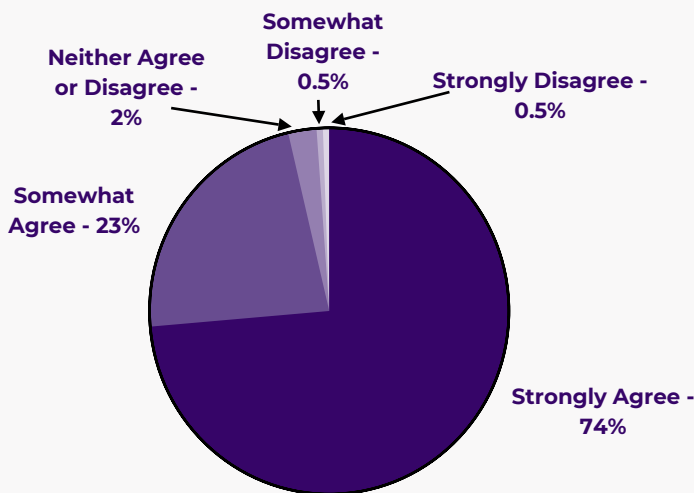
The mean amount estimated by respondents was **£100,363** and the median amount was **£40,000**.

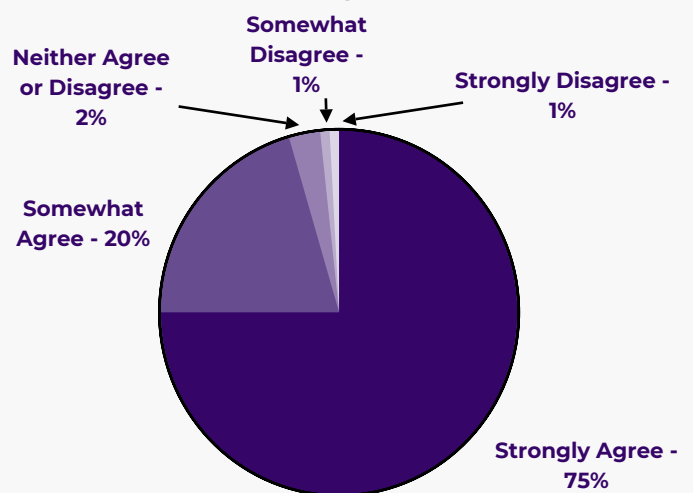Respondents were then asked how much they agreed with a series of statements about the changes:

Estimated Mean Reduction: £40,000
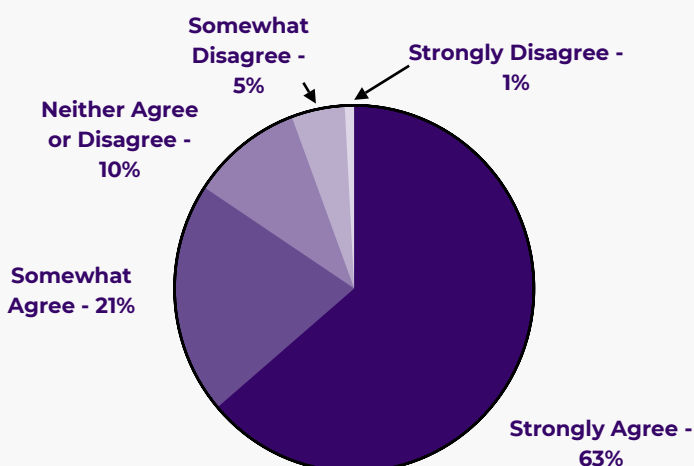
Estimated Median Reduction: £100,363

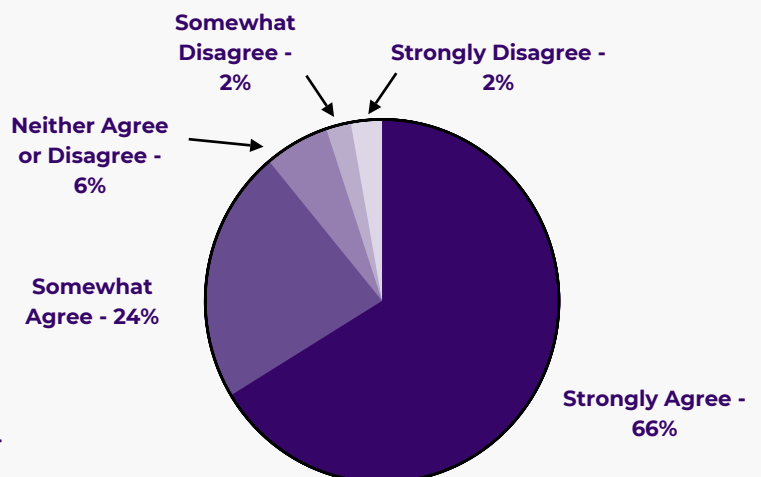### 'I expect the cuts to severely impact my startup.'

- Neither Agree or Disagree - 2%
- Somewhat Disagree - 0.5%
- Strongly Disagree - 0.5%
- Somewhat Agree - 23%
- Strongly Agree - 74%

'I expect development and product testing to be slower and more difficult if these cuts go ahead.'

- Neither Agree or Disagree - 2%
- Somewhat Disagree - 1%
- Strongly Disagree - 1%
- Somewhat Agree - 20%
- Strongly Agree - 75%

'I am concerned I will have to look at offshoring more technology development.'

- Somewhat Disagree - 5%
- Strongly Disagree - 1%
- Neither Agree or Disagree - 10%
- Somewhat Agree - 21%
- Strongly Agree - 63%

'I am concerned I will be forced to raise investment earlier and potentially at worse terms.'

- Somewhat Disagree - 2%
- Strongly Disagree - 2%
- Neither Agree or Disagree - 6%
- Somewhat Agree - 24%
- Strongly Agree - 66%

'I am concerned that the cuts will impact the growth trajectory of my business.'

Somewhat Disagree - 2%

Strongly Disagree - 0.5%

Neither Agree or Disagree - 4%

Somewhat Agree - 28%

Strongly Agree - 65%

'I am concerned I will be unable to pay my staff / business costs.'
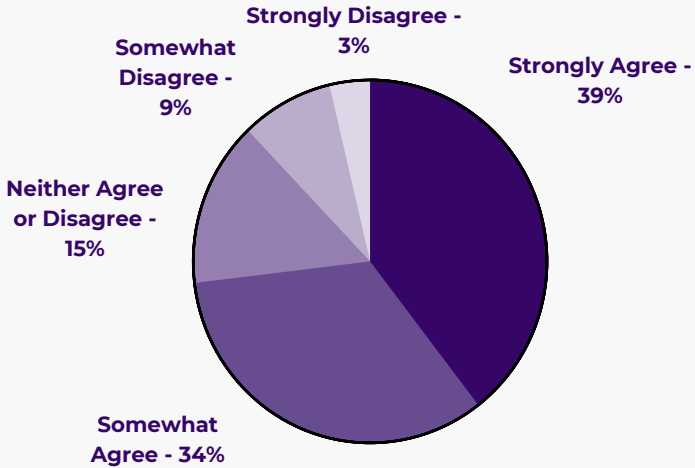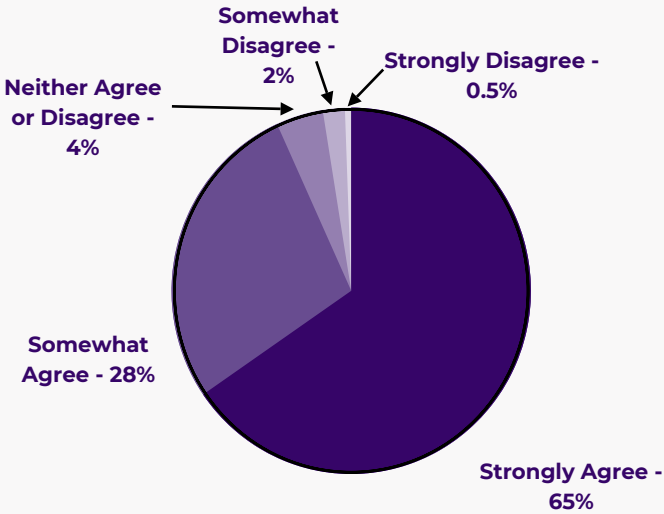
Strongly Disagree - 3%

Somewhat Disagree - 9%

Strongly Agree - 39%

Neither Agree or Disagree - 15%

Somewhat Agree - 34%

'If the cuts go ahead as planned I believe the UK will be made significantly less attractive to startups and investors.'

Neither Agree or Disagree - 2%

Somewhat Disagree - 0.5%

Strongly Disagree - 0.5%

Somewhat Agree - 8%

Strongly Agree - 89%
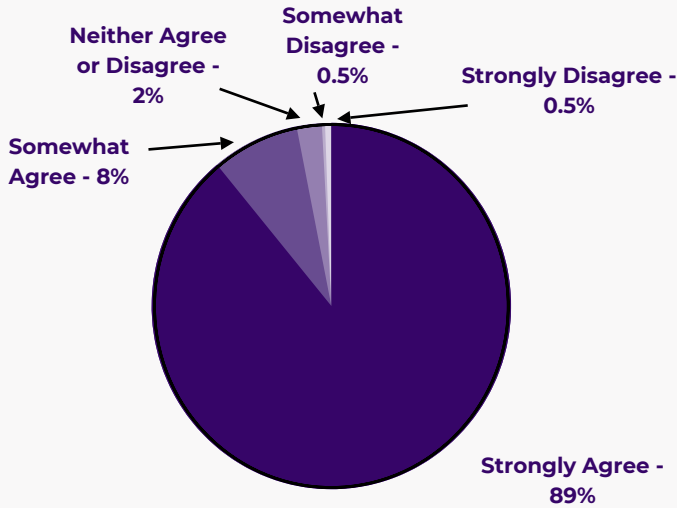
Finally, respondents were given a choice of suggestions for what they wanted to see from any changes to R&D tax credits, and what they were most concerned about. Respondents could select as many options as they wished for each.

What Respondents Want to See from Scheme Changes

Option	Percentage
Simple process to apply for claims	76%
Clear definitions of what is and isn't in scope	73%
Short turnaround times	70%
Continue to have higher rate for small business innovation over corporates	69%
Expansion to cover UX and UI development	59%
Expansion to cover SaaS subscriptions	50%
Clarity on what should be included in tax credit applications	47%
Clear feedback on claims	47%
Responsive service	41%
Expansion to cover the cost of data sets	38%
Less documentation	35%
Making sure they cover R&D overseas	35%
Simple templates and checklists for claims in order to limit the need for middlemen involvement	31%
Cost of patents or other IP protection	27%
Expansion to cover buying test equipment (currently not allowed because these devices are not "consumed")	26%

What Respondents are Concerned About

Option	Percentage
A reduced amount that startups can claim	76%
Unclear terms of what can and cannot be included	73%
A complex process to apply	70%
Slow response and payment times	69%