

R&D Tax Reliefs Consultation

Charity Tax Group response – 2 June 2021

Introduction

1. The Charity Tax Group (CTG) has over 800 members of all sizes representing all types of charitable activity. It was set up in 1982 to make representations to Government on charity taxation and it has since become the leading voice for the sector on this issue.
2. CTG welcomes the opportunity to respond to this consultation and would be happy to meet officials to discuss our response in more detail. CTG is not a charity itself but our response is based on our general knowledge of the position of many charities undertaking and funding research. Our response follows liaison with sector partners including The British Universities Finance Directors' Group (BUFDG) and the Association of Medical Research Charities (AMRC).

Overview and key principles

3. Medical research charities fund considerable research that takes place in the university sector and CTG has a close working relationship with BUFDG. We support the detailed response made by BUFDG to the consultation. Our key focus is to put the case for widening those entities that can qualify for these reliefs in view of the benefit to the UK economy.
4. Medical research charities play a vital role in research and development in the UK, but this is being threatened by COVID-19. Collective research spend in the UK for 2018/19 financial year by 149 AMRC members was £1.9bn. This accounts for 51% of all public spend on medical research. The Institute for Public Policy Research report '[Research at Risk](#)' has warned that the charity fundraising hit from COVID-19 would result in significant reductions for medical research. The AMRC has highlighted the £270 million in charity research spend that has been lost since the pandemic started. Government have recognised that the lifesaving work of medical research charities has been disrupted by the pandemic by providing modest financial support for the sector. A total of £20m has been provided to support early career researchers supported by charities. Whilst welcome, this is a small step and further, more sustainable support for charity-funded medical research will ensure the UK's capacity to tackle the biggest health challenges can continue.
5. The Government replaced the previous super-deduction for large companies with the Research and Development Credit (RDEC) in 2013. This was to encourage more R&D by large companies. HMRC has indicated that universities and charities were never intended to claim the RDEC and were unable to claim under the previous large company scheme. However, HMRC received a number of claims from universities and charities and this provided very effective tax relief for those organisations that claimed. The Government has since [amended legislation so that universities and charities are unable to claim the RDEC](#), in line with the original intention of their policy. The Government say that this is to ensure that the scheme remains effective and well-targeted to business Research and Development (R&D).

The voice of charities on Tax

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While all efforts are made by the Charity Tax Group to give assistance to its members, it is not qualified to give technical advice on fiscal matters and cannot therefore be liable in any way for any such advice given.

In CTG's view this policy reversal was counter-productive and undervalued the role that charity and university research plays in stimulating the UK economy. We urge the Government to think again to incentivise and protect research by charities and universities in the UK especially taking into account the Government's 2.4% target for R&D expenditure.

6. We consider that there is a compelling economic argument for charities and universities to benefit from RDEC and similar reliefs. In particular, any reliefs will be re-invested in further research driving economic growth for the national economy. This is demonstrated by the example we provide in the appendix which explains how previous RDEC claims led to investment in further research including £5m in a convergence science centre in partnership with a leading university.
7. The consultation acknowledges the importance that innovation generates in terms of 'positive externalities' (chapter 4.1). This is 'value that the investor cannot capture'. The consultation document then goes on to explain that, 'Tax reliefs were established to address this by reducing costs for businesses to better align the private returns on investment with the wider social benefits'. The danger with tax relief for the private sector is that it simply returns to investors. With charities and universities this cannot happen due to the requirements of charity law. The tax relief has to be invested in the charity and university's charitable purposes.
8. Whilst it might be acknowledged that the Government's wider economic objectives are met by widening the scope of R&D incentives to charities and universities it might be viewed that this presents a technical challenge from a tax point of view. We do not believe that this is the case as Charities are not outside of the scope of taxation. They simply benefit from certain tax exemptions.
9. Furthermore, a charity or university may carry out research via a trading subsidiary or via the charity or university itself by what is known as 'primary purpose trading'. In the former case, RDEC or a similar tax relief will be feasible to claim whilst in the latter it will not. It seems anomalous that in one situation relief can be claimed but not in the other.

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Appendix - Case study of the benefits of allowing charities to benefit from R&D Tax reliefs

A member charity recovered £12.6m in RDEC claims during the window when RDEC was available to charities. This has all been reinvested in research.

For example, £6.5m was spent in completely renewing Structural Biology capability which involved both acquisition and installation of new state-of-the-art Cryo Electron Microscopy equipment and the recruitment of a number of new research teams to build critical mass. As well as relevance in basic research, this capability forms a key part in the end-to-end drug discovery activity bringing patient benefit through new and better therapeutics and also drives economic returns to the UK through the commercial outcome.

One example that demonstrates this end-to-end process involving Structural Biology is a leading targeted inhibitor of the cancer-driving protein AKT. Structural Biology scientists at the member charity revealed the 3D structure of AKT. Drug discovery researchers at the member charity then worked in collaboration with a commercial company to discover precursors to the drug. This company in turn partnered with a leading pharma and in 2010, the pharma announced its discovery of a drug and began to develop it as a potential treatment for various forms of cancer. The initial clinical development was centred on an early-stage trial which was led by the charity and its partner hospital. Subsequently, phase II studies were completed in the UK under the auspices of the pharma in collaboration with the UK Cancer Research Network, showing activity in breast and prostate cancer. Three Phase III clinical trials (the final stage of clinical trials) are now underway and, if successful, will lead to this drug becoming a new cancer treatment.

Our member charity has also invested more than £5m in establishing a Convergence Science Centre where our member's cancer research expertise will combine with other scientific disciplines - for example engineering - in order to develop new approaches for early detection of cancer and new therapeutic approaches. The future discoveries from this initiative will create commercial opportunities and wider economic benefit to the UK economy.

Without RDEC being available these investments in state-of-the-art medical research would not have happened.