

Guide to HMRC R&D Enquiries in 2024

Enquiries into R&D tax credits are on the rise

As we enter 2024, the landscape of R&D tax credit claims is evolving and becoming more demanding. HMRC has implemented rigorous compliance measures and reforms, leading to a significant increase in enquiries.

This new approach aims to address the rising levels of error and fraud. In fact, the most recent figures show an **error and fraud rate of 16.7%, equivalent to £1.13 billion.**

If your business relies on R&D tax credits, understanding the reasons behind enquiries and mitigating associated risks is crucial.

In the past, making a claim without specialised support may have sufficed, but compliance measures and scheme reforms have added complexity.

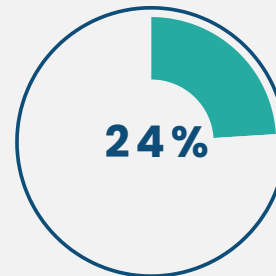
Considering this, it is crucial to evaluate the effectiveness of your claims process and contemplate partnering with a dedicated R&D provider. This collaboration can assist in reducing the likelihood of protracted enquiries and helping to ensure timely receipt of the credits that you rightfully deserve.

The state of R&D tax credit enquiries

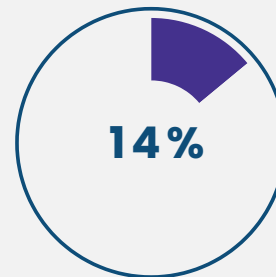
The Surge in HMRC enquiries

The latest statistics on error and fraud in the R&D tax credit scheme, as outlined in [HMRC's Annual Report and Accounts for 2022-23](#), reveal a concerning trend. Enquiries into R&D tax credit claims significantly increased in the year 2020-2021. The SME scheme experienced a particularly high level of error and fraud at around 24.4%, amounting to over £1 billion. In contrast, the RDEC Scheme for larger companies shows a lower rate of 3.6%, equating to £90 million.

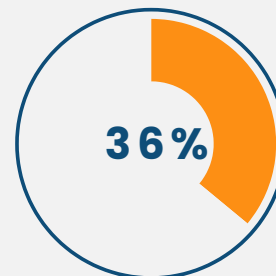
According to the most recent figures from HMRC for the tax year 2020-21, [approximately 14% of SME claims were found to be wholly non-compliant and 36% were partially non-compliant](#). These are significant numbers that shouldn't be overlooked.



For the SME scheme, error and fraud for 2020-21 is estimated as 24.4%



14% of SME claims were found to be wholly non-compliant



36% of SME claims were found to be partially non-compliant

The state of R&D tax credit enquiries

Understanding HMRC's motivation

The prevalence of error and fraud, especially in the SME scheme, is a systemic problem that HMRC aims to address. Non-compliance, whether unintentional or deliberate, undermines the effectiveness and credibility of the R&D tax relief scheme. By conducting thorough investigations, HMRC aims to ensure genuine innovators receive R&D tax credits.

To tackle this issue, several policy changes have been put into effect. As of April 2024, the SME and RDEC schemes will merge into a unified scheme, modelled after the RDEC scheme. Furthermore, in August 2023, the claiming process was modified with the introduction of an Additional Information Form (AIF). This form requires detailed financial and technical documentation, ensuring greater transparency and accountability.

To enhance effectiveness, HMRC has also implemented various operational changes, such as doubling its R&D compliance staff and establishing an R&D Anti-Abuse Unit to proactively detect and prevent fraudulent activities.

Policy changes have a complex impact. While their goal is to improve compliance and reduce fraud, they also complicate the claims process. Companies must navigate more regulations and documentation requirements, requiring a deep understanding of tax laws and meticulous claim preparation. To avoid prolonged enquiries, delayed credit receipt, and financial penalties, businesses must ensure compliant and well-substantiated claims aligned with HMRC's guidelines.

The role of an expert R&D specialists in ensuring compliance

Expert guidance is crucial for receiving R&D tax credits. Specialised R&D advisors play a vital role in interpreting regulations, guiding businesses, and ensuring compliance with HMRC standards. This partnership mitigates risks, reduces enquiries, and ensures timely receipt of R&D tax credits.

In 2024, the role of an R&D agent is crucial in guiding companies through HMRC's rigorous R&D tax credit claims process. The landscape has shifted from minimal documentation to a more stringent environment where accuracy is paramount. This has redefined the R&D agent's role as an advisor and strategic partner in ensuring compliance and handling potential enquiries.

They should ensure that all aspects of an R&D claim align with HMRC's requirements, including the technical narrative and financial details.

Expertise lies in detailing scientific or technological advancements, demonstrating compliance with BIS guidelines, and ensuring accountability.

The experience of an R&D agent in managing HMRC enquiries is also valuable, demonstrating expertise and reliability. Working with an advisor with a successful track record in handling enquiries provides added assurance. If the figure is not readily accessible on their website or sales materials, request information regarding the advisors' enquiry and success rates. This will provide insight into the number of enquiries they have received and the success rate of those enquiries.

In essence, an R&D agent in 2024 combines compliance expertise, strategic advice, and defence against enquiries, supporting clients throughout the HMRC review process.

Strategies to avoid HMRC enquiries in R&D tax credit claims

Navigating the complexities of R&D tax credit claims in 2024 requires a strategic approach to minimise the risk of HMRC enquiries. Companies must focus on accuracy, compliance, and the expertise of R&D advisors. **Here are key strategies to avoid enquiries:**

1. Choose an experienced and reputable advisor

It's crucial to select an advisor with both experience and a solid reputation. The track record of an advisor in handling R&D tax claims and enquiries is pivotal in ensuring accurate preparation and scrutiny from HMRC. To evaluate options, refer to our guide on [selecting the right R&D advisor](#).

2. Accurately represent R&D costs

It is essential to accurately represent R&D costs. Including marginal or non-R&D costs can raise red flags. Seek advice on what costs qualify for your specific industry and/or activity and adhere strictly to these guidelines.

3. Precision in financial reporting

Ensuring that the numbers in your claim are correct is crucial. Errors or misrepresentations in financial data can lead to enquiries. Double-checking and verifying all financial information before submission is a prudent practice.

4. Avoid overclaiming on costs

Be cautious not to claim 100% on individual R&D costs unless they are fully justifiable and include contemporaneous documentation e.g. timesheets and invoices. Overclaiming can be perceived as an attempt to inflate the value of the claim and may trigger an enquiry.

Strategies to avoid HMRC enquiries in R&D tax credit claims

5. Include a clear technical narrative

Include a technical narrative that clearly articulates the scientific or technological advances made in the industry. This narrative should explain how your project meets the R&D criteria, detailing the uncertainties encountered and how they were addressed. This task should be carried out by a competent professional, preferably the individual who spearheaded the R&D project.

6. Review and discuss before submission

Before submitting the claim, thoroughly review and discuss the report with your advisor. This review process helps catch any potential issues that could lead to an enquiry and ensures that your claim is as strong as possible.

7. Accept that an enquiry might happen

Finally, understand that enquiries can still happen despite taking all the right steps. They are part of the landscape of R&D tax claims. Having a mindset that anticipates and is prepared for this possibility can help in dealing with any enquiries that arise effectively.

Implementing these strategies can significantly reduce the likelihood of an enquiry into your R&D tax credit claim. Remember, the key is in the details and having the right expertise to guide you through the process.

What are the common reasons for disputes or enquiries?

In the R&D tax credit landscape of 2024, understanding the common reasons for disputes or enquiries is crucial. Our latest survey, [2023 and Beyond: Unlocking UK Tech Growth Through R&D](#), which included input from 300 UK tech leaders, coupled with HMRC's findings, sheds light on prevalent issues. Notably, the involvement of R&D agents in these disputes underscores the importance of selecting a reputable and specialist advisor.

Claim construction issues identified by our survey:

A significant portion (**73%**) of disputes or enquiries stems from how R&D claims are structured, often involving the input of R&D agents. Key issues include:

- **Mistreatment of rates pre and post-April 2023:** This error category comprises 17% of the disputes.
- **Claims prone to error and fraud:** Accounting for 14% of disputes.
- **Incorrect treatment of intangible assets:** This issue represents 12% of the disputes.
- **Misaligned cost allocation with CIRG guidelines:** Contributing to 11% of the disputes.
- **Unclear advances or uncertainties in the technical narrative:** 10% of disputes arise here.
- **Suspicious audit trails in cost collections:** This accounts for 9% of the disputes.

What are the common reasons for disputes or enquiries?

Insights from HMRC's Compliance Analysis:

HMRC's Analysis: The Mandatory Random Enquiry Programme revealed that around half of the examined claims in 2020-21 had some non-compliance elements, with fewer than 10% indicating fraud. The majority of issues stemmed from the following:

- Complete disallowance due to no qualifying R&D activities.
- Despite the presence of qualifying R&D activities, the claim's value is excessively high.
- Genuine attempts at claiming but with technical misinterpretations of the legislation.

The critical role of R&D agents:

These findings highlight the critical role of R&D agents in the claim preparation process. Errors in claim construction, which make up a significant percentage of disputes, often occur despite the involvement of R&D agents. This fact accentuates the need for companies to choose advisors who are experienced and specialise in understanding and applying the intricate details of R&D tax credit legislation and guidelines.

Why work with EMPOWERRD?

EmpowerRD offers comprehensive support for R&D tax claim enquiries, ensuring a smooth and compliant process. **Our services include:**

- ✓ **Standard enquiry support:** Our service includes standard enquiry support, making it hassle-free for our clients.
- ✓ **Experienced team:** Our Enquiry Response team comprises individuals with extensive expertise.
- ✓ **Intuitive platform:** Unlike traditional advisors who use spreadsheets and email chains to compile a claim, our platform consolidates all data, finances, and documentation in one place. This organised approach ensures a centralised data trail, making claim defence more efficient and robust.
- ✓ **Client communication:** We inform our clients at every stage of the enquiry process, ensuring transparency.
- ✓ **Data management:** We ensure that your claim report contains sufficient information and, if necessary, work closely with clients to gather additional data.
- ✓ **Direct HMRC communication:** EmpowerRD handles all communications with HMRC, simplifying the process for our clients.

And we have a low enquiry rate...

In 2023, EmpowerRD maintained an impressively low enquiry rate of just 2.4%. This starkly contrasts with HMRC's reported non-compliance rates for the tax year 2020-2021. During that period, a substantial 14% of claims were found to be fully non-compliant, while 38% exhibited partial non-compliance. While these rates do not guarantee an enquiry, the significant difference in averages underscores our unwavering commitment to minimising compliance issues for our clients. With meticulous attention to detail and a steadfast dedication to excellence, we consistently strive to provide our clients with the highest level of service and peace of mind.

EMPOWERRD

In 2017, our founder recognised that the R&D tax claim process was not only complex but also costly. EmpowerRD then became the first to launch an R&D tax claim platform in the UK, with backing from Forward Partners. Delivering a hybrid approach of both platform + service, adapting to regulatory change when needed.

With the R&D tax credit scheme undergoing significant changes, choosing the right specialist has never been more important. We're proud to have helped over 1,200+ UK companies claim over £200 million in R&D tax credits since our inception in 2017.



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