Personal Computer World

Publication:	Personal Computer World
Date:	19th February 2010
Circulation:	Online
Frequency:	Online

Tax relief no help to tech providers

Businesses have called for consistency rather than constant change to the tax regime

Fleur Doidge, CRN 19 Feb 2010

Consultancy **PricewaterhouseCoopers (PwC)** has claimed that the current UK tax regime may be failing business, and the domestic technology industry in particular.

Not only are measures introduced not feeding through to businesses, but constant reform has created confusion – meaning that few are taking advantage of new measures aimed at encouraging innovation.

Barry Murphy, UK technology practice leader at PwC, said tax relief as it currently stands may not be helping domestic tech companies grow up to be big and strong.

"A lot of companies do not think there is enough incentive from taxation to make them do things," Murphy said.

His conclusion is based in part on the consultancy's **Enterprising UK 2009** survey of 391 companies with turnovers of £5m and up to more than £200m, which found that more than 50 per cent of tech firms have failed to make use of tax credits for research and development activity, and that 80 per cent had not taken advantage on tax relief on offer to companies that have moved to protect the environment.

On top of that, measures specifically introduced in the 2009 Budget had not reached most industry players. About two-thirds of the UK tech companies surveyed said they do not believe the current tax regime fuels enterprise activity.

Misunderstandings about tax relief Some of this may be down to misunderstandings around the different forms of relief. "As regards research and development, the low take-up may indicate tech companies do not view what they do as innovative," Murphy said.

It was also likely they could be put off by a complex claims process. Murphy added that many also simply assume they are not themselves at the cutting edge of technology – perhaps because they are not first and foremost a research firm or developer -- and therefore do not apply.

Yet the country's competitiveness relies on innovation and technology. Technology providers should review their taxation affairs to ensure they are getting as much tax back as possible. A standard solutions provider, for example, might find that some little bit of coding done as part of an integration qualifies them for a research and development credit – but they won't know unless they look into it.

“Over 90 per cent of those surveyed have also called for a reduction in tax,” Murphy said.

People do generally want to pay less tax – but in this case it is also a request for simpler, more consistent taxation. Continuous tinkering with tax tends to put companies off from engaging with the system, which means that, once again, they may miss out in some ways when tax time comes, Murphy said.

Ian Kilpatrick, chairman at security distributor **Wick Hill** and a former accountant, agreed some issues with the tax regime as it stands do create uncertainty for tech providers.

“There are changes nesting on top of previous changes increasing the system's complexity and making it difficult for businesses -- particularly SME and medium sized firms -- to plan and manage,” he said.

“I am now miles away from awareness of all the rates and regulations, so it must be doubly difficult for those who do not have the benefit of a background in accountancy.”

That said, the regulations around research and development were clear and beneficial.

“Qualifying companies can get the benefit of up to 175 per cent of the expense against corporation tax so it can be very beneficial,” said Kilpatrick.

Environmental initiatives may qualify Around environmental issues, there were also good tax benefits available for businesses. Since taking action on the environment could also slash energy costs for a business, tech providers stand to gain twice over.

“The problem is business owners getting the time to look at these, and in the case of the enhanced capital allowance (ECA) for energy saving, the web site is less clear than the carbon trust,” he said.

Everyone has got so acclimatised to bureaucracy that benefits can be overlooked. Local business links, chambers of commerce and carbon trusts, however, can give pretty straightforward assistance.”

Tom Mulvaney, non-executive director at **Networks First**, said there aare fiscal incentives available to innovative companies but the problem lies in accessing them.

“The legislation and bureaucracy surrounding the incentives is so dense that they act as an effective deterrent [to applicants]. A well-thought through policy toward innovation, with consistent and simple tax incentives, would be very welcome and quite probably it would be self-financing in the medium term.”

However, Mulvaney added, the current state of the public purse seems quite likely to scupper any such hopes.

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