Insurtech UK

Insurtech UK Response to HM Treasury Consultation: The scope of qualifying expenditures for R&D Tax Credits

About Insurtech UK:

Insurtech UK is a trade association for the community of insurtech startups operating in the UK. Our membership base has over 100 businesses; including 90 insurtech startups and a number of partners both from the traditional insurance space and industries which serve the insurance market. Insurtech UK's mission is to transform the insurance industry through technology and to make the UK the global leader in insurance innovation.

Introduction:

This consultation offers an opportunity for HM Treasury to understand the process of how businesses use data for R&D purposes, and equally to recognise why the residual value of data should not affect an R&D claim.

Insurtech UK wants to highlight that if data is clearly purchased for R&D purposes, then this should demonstrate that the data is intended to be consumed for the R&D. Although it is unlikely that datasets will be wholly consumed during the R&D process, due to the unique nature of data, this should not disqualify this R&D from relief.

Insurtech UK understands the concern about whether this residual data offers commercial value beyond the lifespan of the R&D bubble, but where there is clear intent that the data was purchased for R&D, these claims should be qualifying. Additionally, for many Insurtech UK members, often the primary need for data consumption is for theoretical and mathematical testing, rather than commercial pricing and modelling, so there should be a lesser concern from HM Treasury about the exploitation of this data for commercial purposes.

Additionally, Insurtech UK believes that the research phase of R&D should be included within the scope for relief. Often for businesses, upon purchasing datasets for R&D purposes there is a lot of initial analysis of data and preliminary work to allow R&D intensive activities to take place. These processes currently do not fall within the scope of an R&D claim, but this period is essential to allow R&D to take place and therefore should be eligible for relief.

Finally, HM Treasury should consider extending digital overheads into the scope of relief to reflect the changing patterns in business practices where more overhead costs are invested in digital infrastructure such as cloud computing. Insurtech UK believes that these costs should be treated like other expenditures such as energy consumption (which qualifies for R&D relief) because they are equally vital to R&D.

Insurtech UK members and partners will be contributing to this consultation individually and have more specifics on some of the questions outlined in this consultation. In this response, we have provided feedback to some of the specific questions below.

Question 1a) Are there uses of data that contribute to R&D but which do not currently attract relief through the RDEC and SME schemes?

All forms of data used to create and test software does not currently attract relief, yet this is essential to R&D. The nature of Insurtech UK members – technology startups operating within the insurance market – means that the R&D completed by these businesses is heavily reliant on data and without it, many businesses cannot complete their R&D activity.

The data used for R&D can have residual value beyond the lifespan of the R&D Bubble, but Insurtech UK believes that when it is clear that the intent and purpose of the purchase of data was for R&D, then these costs should be qualifying.

Finally, the research phase of R&D is out of scope, yet is a vital part of the R&D process. This is especially true with data, as data sourcing is needed to understand datasets. This phase should therefore be eligible for relief.

Question 1b) To what extent are datasets employed in the R&D process consumed? To what extent do they retain value?

Data used for R&D can have a residual value. This is because data is not usually wholly consumed, even if the intent of the data is purely for R&D. However, the value of this data decreases over time because it becomes outdated.

Insurtech UK members find a residual value in data to retest the data to refine and improve their propositions relating to the R&D Bubble. However, this also leads to the longer-term purchase of data sets, and for many insurtech businesses, this value is not usually used for commercial purposes. One example a member provided was that the data they use is to calibrate the system of their platform, and therefore is not in itself of commercial use, it is test spend.

Question 2a) Do you already claim for software costs under the current definition? If so, what was your experience of separating out the R&D specific costs for the purposes of the claim?

Several Insurtech UK members highlighted that they do claim these costs, although others do not, and one member had been advised by HMRC that they would not be able to claim.

Members have reported that splitting out R&D from the rest has been a difficult process, with one member calling it “painful and time consuming”. There is a feeling amongst some members that their entire business can be viewed as an R&D project, but because of the way that costs must be separated, this is not reflected in the amount that these businesses can claim. In one example, only 5% of their costs could be applied as R&D, which was described as a “gross underrepresentation” of how much of their operations they felt should have qualified for R&D.

Question 2c) Are there any software costs, partially or wholly for R&D purposes, that do not currently qualify for R&D Tax Credits, that should be if the regime is to better reflect the nature of modern R&D?

Insurtech UK members noted several software costs that currently do not qualify. These include:

- Hosting costs
- Raw datasets (e.g. Pricing, search data)
- Social media spend (when used to test algorithms)
- Cloud computing
- Data storage
- Customer acquisition tests

Additionally, it was highlighted that contractors are only eligible at a reduced rate, and there is a desire amongst the membership to be able to apply their cost in full. This is especially relevant to startups who often have to work with freelancers because they do not have the scale to insource that talent. Insurtech UK believes that all of these software costs should qualify for relief.