
Consultation on R&D tax reliefs

1 May 2021

In response to the [consultation on R&D Tax Relief](#), the British Academy is pleased to provide a response which draws in part from work it commissioned in 2020. [Understanding R&D in the arts, humanities and social sciences](#), written by Nesta and the Creative Industries Policy & Evidence Centre (PEC) explores how UK businesses invest in research and development in SHAPE (the Social Sciences, Humanities and Arts for People and the Economy) and how this R&D is recognised by UK policymakers and in R&D statistics.¹

This research was funded by the British Academy due to the strategic importance and timeliness of the issue. The report highlights how, at present, without the right definitions and tools to measure R&D and hence being unable to put effective policies in place to support it, the UK government risks ignoring the full value of R&D and missing out on the innovation potential of SHAPE-related sectors and activities.

The response below focuses on two questions proposed in the consultation document: areas of activity which should be covered by the R&D definition and recognised by the tax system; and how use of R&D tax reliefs could better incentivise R&D with specific social value.

Is there evidence to suggest areas of activity other than those currently covered by the R&D definition drive positive externalities which should be recognised by the tax system?

The government has made strong commitments to increasing investment in research and development (R&D) as a way to addressing the economic, social and global challenges of today and tomorrow. It is unquestionable that investments in research and innovation have made innumerable improvements and contributions to lives and livelihoods. These benefits are a result of research and innovation insights from all disciplines, but this broad-based contribution does not translate into policymakers' R&D definitions, nor does it sit well with R&D statistics.

The UK Government has adopted the Organization for Economic Cooperation and Development's (OECD) Frascati Manual when collecting R&D data, which defines R&D as "creative and systematic

¹ For the full research, see Bakshi, H. Breckon, J. and Puttick, R. (2021), 'Understanding R&D in the arts, humanities and social sciences', *Journal of the British Academy*, 9(2), pp.115-145.

work undertaken in order to increase the stock of knowledge – including knowledge of humankind, culture and society – and to devise new applications of available knowledge”.² The manual goes on to explicitly acknowledge the importance of SHAPE R&D: “R&D is found in the social sciences, humanities and the arts as well as in the natural sciences and engineering”.³ Despite the adoption of this definition, R&D involving the arts, humanities and social sciences is explicitly excluded in some areas of UK Government policy, including fiscal policy and in the ‘Guidelines on the Meaning of Research and Development for Tax Purposes.

This means that R&D expenditures relating the SHAPE are actively excluded from R&D tax relief despite otherwise satisfying the requirements of R&D - novelty; creativity; uncertainty; systematic work; and transferability. It is also likely that this exclusion has resulted in SHAPE R&D being severely undercounted, as businesses are less likely to record this type of R&D or report it in their statistical returns. More comprehensive evidence and discussion of this point can be found in an article based on the research carried out by Nesta.⁴

Beyond the definitions used across government departments, caution is needed in assuming that all innovation in the economy can be assessed by looking at those who apply for R&D tax credits; any firm which operates on billable hours cannot have a budget line for innovation. Nor can policies focus on where whole organisation arms or departments exist for R&D, when innovation can exist in the daily interactions and actions of individuals. This is particularly true in the services sector which has its origins in the SHAPE disciplines and accounts for 80% of the UK economy - including fast growing, internationally competitive sectors like the creative industries.⁵ Some innovations are turned into new products, but some become services or jobs, while others are marked in the changes they cause to industry or government. All impact wider society, yet current innovation policies risk missing this effect and the opportunity to encourage it.

Do you think R&D tax reliefs could better incentivise R&D with specific social value, for example developing green technology? Could R&D tax reliefs be used to disincentivise R&D in certain fields?

Without the right definitions and tools to measure R&D, and hence limiting its ability to put effective policies in place to support it, the Government risks ignoring the full value of R&D in the UK economy, and missing out on incentivising investment in innovation in SHAE-related sectors and activities.

SHAPE research contributes to a constantly growing body of knowledge on human experience, agency, identity and expression, helping inspire creative behaviour, as well as novel goods and services.⁶ In economics, R&D may involve the development of a novel method to manage an investment fund. In history, R&D can help the design of a new museum exhibit that serves social engagement. Linguistics R&D can help develop a new tool for diagnosing autism in children based on their language acquisition, retention and use of signs. And in music, R&D can assist in the development of new pedagogical materials based on new discoveries in neuroscience. SHAPE research also supports disciplinary efforts to tackle global problems, for example utilising behavioural science and demography to support vaccine planning and tackle hesitancy.⁷ The Frascati Manual offers illustrative examples of SHAPE R&D;⁸ as does the Association of Social

² OECD (2015), *The Measurement of Scientific, Technological and Innovation Activities Frascati Manual 2015 Guidelines for Collecting and Reporting Data on Research and Experimental Development. Guidelines for Collecting and Reporting Data on Research and Experimental Development.*

³ *Ibid.*

⁴ Bakshi, H. Breckon, J. and Puttick, R. (2021), *Business R&D in the Arts, Humanities and Social sciences: A Policy Briefing*, The British Academy.

⁵ This figure pre-dates the Covid-19 pandemic. See ONS (2020), *UK National Accounts, The Blue Book, 2020.*

⁶ See for example, Morgan Jones, M., Abrams, D., and Lahiri, A. (2020) ‘Shape the future: how the social sciences, humanities and the arts can SHAPE a positive, post-pandemic future for people, economies and environments’, *Journal of the British Academy*, 8, pp.167-266.

⁷ Mills, M (2020), *COVID-19 vaccine deployment, Behaviour, ethics, misinformation and policy strategies*, *The British Academy and The Royal Society.*

⁸ OECD (2015), *The Measurement of Scientific, Technological and Innovation Activities Frascati Manual.*

Sciences' (AcSS) *The Business of People* report,⁹ and the forthcoming British Academy report on knowledge exchange.¹⁰ Further examples can be seen in the impact case studies of work funded by the Economic and Social Science Research Council (ESRC),¹¹ the Arts and Humanities Research Council (AHRC),¹² including those with specific social benefit.

Similar examples were surfaced in the work conducted by Nesta for the Academy. In interviews, business leaders communicated the value of R&D in helping to address big social and environmental changes. They explained that they were using SHAPE to pursue social missions, such as using research insights to reduce inequality or environmental impact. Companies – and the UK economy – cannot keep still and must have an eye on the future, both in terms of technology, but also disruptive social change. SHAPE research can help businesses to monitor and understand social trends - such as the #MeToo movement - so that their products are socially both responsible and increasingly marketable. One interviewee from Unilever said that AHSS R&D is needed because there are “enormous societal changes and you have to be in tune with those trends and seek to anticipate all that lies ahead.”

Whether it is in the creative industries, financial services or the public sector, researchers in the social sciences, humanities and the arts make enormous contributions to the UK's research and development sector and to public life. Now, in a time of economic and societal uncertainty, as we seek to recover and rebuild, fully recognising where and how R&D occurs is more important than ever.

⁹ Walker, D. (2015), *The Business of People: The Significance of Social Science over the Next Decade*, Campaign for Social Science/SAGE.

¹⁰ The British Academy (2021), *Knowledge Exchange in the SHAPE subjects*. Available at <https://www.thebritishacademy.ac.uk/programmes/research-innovation/>

¹¹ <https://esrc.ukri.org/research/celebrating-impact-prize/previous-years-winners/impact-prize-winners-2020/>

¹² <https://ahrc.ukri.org/documents/project-reports-and-reviews/the-impact-of-ahrc-research/>