



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Kirsty Blackman MP
House of Commons
London
SW1A 0AA

15 May 2023

Dear Kirsty,

Thank you for your contributions to the Finance Bill debates so far. I committed to writing to you about your proposed amendment and your concerns.

The legislation does not allow claw back of tax relief once the R&D activities become profitable. Instead, it prevents businesses that buy and sell cloud services or data licences from claiming R&D tax reliefs on their expenditure, even where there may be some incidental R&D activities.

This restriction is required because cloud services and data, unlike more traditional business inputs, cannot be 'used up' by the business and so assessment of their use within the business is necessary to ensure effective targeting of tax reliefs. Where businesses substantially modify cloud services or data to form a new product for sale the restriction does not apply – customers will be supported in the application of this legislation by published guidance.

The new power granted by the legislation to remove claims is intentionally only exercisable in specific circumstances. This is made clear in the Explanatory Note where in reference to the measure it says, "This will allow HMRC to reject claims which have not been the subject of a claim notification, or where the additional information requirement has not been fulfilled."

The guidance to processing and specialist R&D staff, which will be publicly available, will make it clear that the scope is as limited as above. Therefore, the current wording of the legislation is sufficient to ensure that the power is only used in the prescribed circumstances, making the amendment unnecessary.

Thank you for raising your concerns. A copy of this letter will be deposited in the Libraries of the House.

Yours sincerely,

VICTORIA ATKINS MP