ACADEMY *of* SOCIAL SCIENCES

The National Academy of Academics, Learned Societies and Practitioners in the Social Sciences

R&D Tax Reliefs consultation: Academy of Social Sciences response

Who we are

The Academy of Social Sciences (AcSS) is the national academy of academics, learned societies and practitioners in the social sciences. Its mission is to promote social science in the United Kingdom for public benefit.

The AcSS is composed of approximately 1400 individual Fellows, 47 Member Learned Societies, and a number of affiliates. Academy Fellows are leading professional social scientists from academia and the public and private sectors.

Background

The Academy of Social Sciences is responding to the Treasury consultation on R&D tax reliefs. Our response focusses on question 9, seeking evidence that areas of activity other than those currently covered by the UK's definition of R&D should be recognised by the tax system. We argue that social science research should be recognised as eligible for tax reliefs, subject to the Frascati rules.

We note the definition in the OECD's Frascati Manual (2015). According to the Frascati rules, R&D activity must be: novel; creative; uncertain; systematic; and transferable and/or reproducible. That is, to count as research and development (as compared to other forms of research or knowledge-gathering), there must be genuinely novel elements, with some uncertainty as to outcomes, as well as the other criteria.

After being updated in 2015, the Frascati Manual allowed for the inclusion of the social sciences in its definition of R&D. It noted that this "requires no changes in the definitions and conventions but it does require greater attention to the boundaries that define what is and what is not R&D." It found that focussing on novelty and uncertainty "is extremely helpful" for defining the boundary between R&D and more routine research activities. This would help, for instance, to distinguish routine market research from R&D activities that developed new methodologies for such research.

Other countries do allow social science-based R&D in their R&D tax reliefs. A recent report published by the British Academy lists the following countries as allowing humanities and social sciences R&D: Austria, Belgium, Chile, Colombia, Denmark, France, Hungary, Italy, Korea, Mexico, Norway, Portugal, Russia, and Spain.

The UK does not currently allow social science-based research to qualify for R&D tax relief. Both the BEIS Guidelines and HMRC rules are explicit that only science and technology activities are eligible, and both note further that work in the arts, humanities and social sciences (including economics) are 'not science' for the purpose of R&D tax reliefs.

This means that R&D expenditures relating to the social sciences are explicitly excluded from UK R&D tax reliefs, even if they meet the Frascati criteria.

Social science and R&D

The AcSS understands the importance of not giving tax reliefs to 'routine' research, where the 'deadweight' component would be high. This is true of STEM science research too (as this recent study from the Centre for Business Research at Cambridge Judge Business School argues).

But there are good reasons to recognise social science R&D contributions to the growth of the UK economy. First, given the size and composition of the service sector in the UK, much R&D activity will necessarily take place there. Maintaining innovation-led growth in businesses and business practices across all sectors of the economy is vital to the growth of the UK economy as a whole. Growth in the service sector will require not only innovation in technological and digital practices, but in making productivity gains and greater efficiencies in strategic decision-making and investment. Social science research, especially when allied to new data opportunities from digital technology, will be essential. This is likely also to require greater experimentation with new service delivery models; incentives for research-informed experiment, including research on behaviours, will be crucial for this.

Second, many challenges facing UK private sector firms will require more systematic and innovative studies of human behaviours, including stress-testing responses to regulatory change, as well as individual behaviours. Issues such as the climate emergency, and responses to changing patterns of global competition will increasingly need to take account of innovative social science research in identifying pathways to growth and in risk management.

The AcSS believes it may be helpful if the Treasury were to consider some examples drawn from work we have done over the past few years about the contributions of social science knowledge and skills to the UK private sector. Some, but not all, of these arise from our 2020 report, Vital Business. Each of these examples seems to meet the five Frascati criteria, involving the use of social science research that is not 'routine'. They also exemplify activities, including enhanced medium and long-term planning, for which the UK might wish to provide incentives. Some of these uses of social science were carried out in conjunction with STEM science, or in STEM-based businesses.

> *Example 1: Cisco*
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> Our interview with Cisco revealed a number of ways that it used social science research and methods to aid in product development, including with its research and development on new technological platforms for remote working, for instance. Understanding how and when people would use these platforms outside an office environment, and how data security and privacy concerns could be addressed, requires social science inquiry and methodologies, as well as technological development.
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> *Example 2: Deloitte*
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> Our interview with Deloitte showed social science expertise and skills being used to help develop innovations for public authorities to deliver better and more efficient

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services. In the course of the interview, they noted that tech businesses such as DeepMind needed to understand issues to do with public acceptability and concerns in their work to make better use of health data for public benefit, and for more efficient targeting of service delivery.

Example 3: Market Research Society and various opinion research firms

As part of a large scale effort to develop innovative ways to improve accuracy, representativeness and affordability of their data collection models when digital data collection would be inaccurate, the MRS and various companies have undertaken various activities to improve methodologies, based on empirical research and experiment. This was not 'routine' market research, but rather innovative and comprehensive research to improve accuracy in an important sector of the UK economy.

Example 4: risk scenario planning (Shell and Willis Towers Watson)

Our interviews with these two firms showed widespread use of social science research to inform innovative risk scenario planning in a number of domains. These included how to improve global investment decisions, requiring bringing together multi-disciplinary teams in innovative ways to consider how to take account of national political, socio-legal, and regulatory regimes, as well as gaining a better understanding of local markets where little official data might exit. Another example is risk assessment affecting planning for insurance, ranging from demographic, geography, economics, planning and behavioural studies in assessing areas prone to flooding, transition risks as markets move to electric vehicles, and so on. In addition, because much of its work requires long-term product development, Willis Towers Watson was engaged in innovative work to look at generational and socio-cultural phenomena that could be relevant to insurance-related behaviours. While this is clearly in the long-term interest of the company, business models for the future are likely to have to be increasingly aware of these medium-term developments and to develop innovative ways to quantify them.

Example 5: Diageo

Our interview with Diageo gave an example of a firm investing in social science research to consider such medium-term issues and manage reputational risk. This also requires bringing together data from STEM and the social sciences to consider issues like adapting to climate change and ensuring sustainable water use.   Behavioural psychology is also used by the company as it seeks to use the lessons of the nudge effect (getting people to make better choices by changing their default choices) to encourage people to drink in a more moderate way.

Conclusion

We have pointed to examples where research involving social science expertise and methodologies is already being undertaken, and so could be viewed as 'deadweight'. It is

arguable however that UK firms would be more innovative and successful if they did more of it, as we argue below about data skills. It is also probable that it would help reduce the gap between technical innovation and bringing products and services to market.

While these examples are drawn from large companies, it seems clear that small and medium-sized firms could benefit, and be more innovative, if they were encouraged to bring relevant social science data to bear in novel ways on medium-term decision-making. So, normal marketing would not be eligible for tax reliefs, but compiling evidence in a new and more locally-tailored way to understand potential markets or risks could be. This would also help drive the 'data driven' economic growth envisaged in recent government consultations, and incentivise investment in data skills including those needed to access demographic, social geographic, and other social data.

We urge Treasury to work with BEIS and HMRC to remove the blanket prohibition on non-STEM research for qualification for R&D tax reliefs, while retaining the five Frascati criteria. In order to provide useful guidance to firms, we believe a few well-chosen examples showing what types of social science research activity are deemed to be routine, and which qualify as novel and uncertain, would be helpful. Of course, over time these boundaries might change. That would in fact be a vindication of the decision to include tax reliefs for social science R&D.