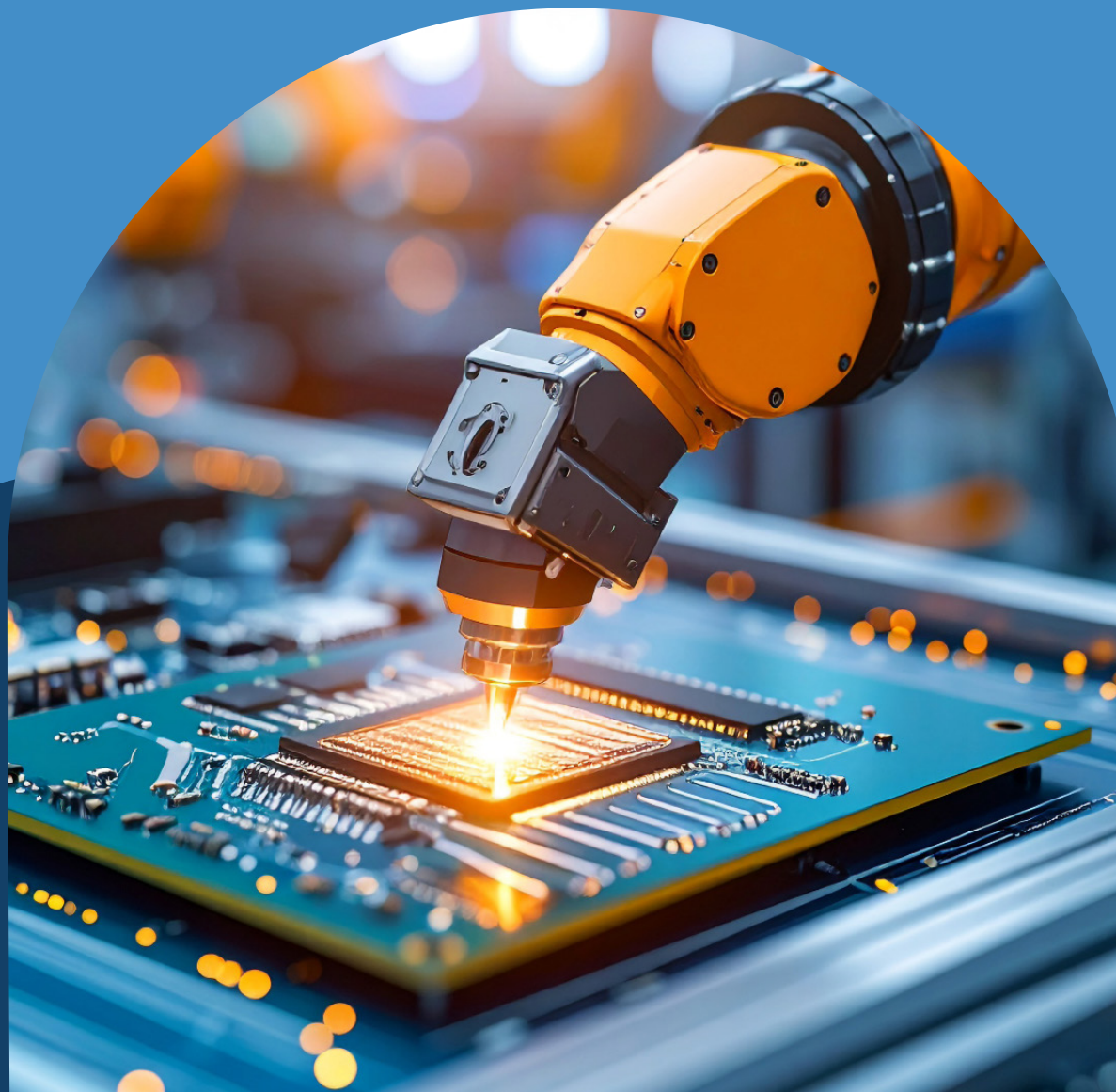
MAKE uk
The Manufacturers' Organisation

In partnership with
RSM

# INVESTMENT MONITOR 2025:

## FINDING AN EQUILIBRIUM BETWEEN RISKS AND RETURNS IN MANUFACTURING INVESTMENT



# Contents



# Executive Summary

Business investment is synonymous with choice. It decides how industries grow, but clear government strategy can shape their evolution. The beginnings of Intellectual Property (IP) laws paved the way for the industrial revolution and our backing of financial technologies has made the UK a world-beating location to scale ideas. With the unveiling of the latest Industrial Strategy – putting eight key sectors alongside Advanced Manufacturing at its heart – we find ourselves at another pivotal moment to shape these choices again.

The manufacturing sector is no stranger to investment, and its investment in growth over time is intimately linked to its current state. Today, UK manufacturing is a powerhouse, accounting for just under 10% of our GDP. But it is not operating without challenge as it balances short-term needs – such as access to labour or improving liquidity – with long-term goals to digitalise and decarbonise. Our latest Make UK/RSM *Investment Monitor* explores how manufacturers are investing, highlighting a shift in priorities. This year, People has overtaken Capital as the top investment priority, alongside continued emphasis on Digital. Despite this, investment intensity (how much businesses invest relative to their size) has dropped to its lowest since 2017.

Confidence in the wider economy and equipment maintenance remain key factors for motivating investment. While the Government cannot directly control what motivates investment, and despite the Treasury being in a difficult position to generate tax revenue, policy can powerfully shape the business environment. Our research spotlights the role of the UK's three main tax reliefs, Capital Allowances, R&D Tax Credits, and the Patent Box, with over 80% of manufacturers saying they influence investment decisions. Well-designed incentives can tip the scales toward more productive investment.

But why do this? It's a verifiable fact that the UK under-invests when compared to its peers in the OECD. This has contributed to our subpar performance in productivity growth since 2008 and has manifested itself as an uncompetitive business environment – with high energy costs, limited opportunities to scale innovations, an inadequate plan to develop the next generation of workers and an increasing tax burden. The manufacturing sector cannot fulfill its potential this way, so our findings point to adjustments to the big tax reliefs to incentivise investment into digital technologies, automation, sustainability and skills. In addition, we give support to capitalising on the opportunities presented by IP-linked finance to create a business environment that rewards innovators to start, stay and grow in the UK.

But we need to go further than this too. Long-term targets are required, such as progressively matching our national investment intensity to meet the OECD average by 2035, leading to an additional £670 billion of public and private investment and making the UK a top 5 nation for investment incentives – ensuring the UK is consistently viewed as one of the best places in the world to invest.

The Industrial Strategy is the perfect start to change the description of the UK's business environment. The practical insights shared in this report can support businesses to benchmark their own investment activities as well as inform policymakers on the next steps to evolve the tax system to support growth rather than hinder it.

# Introduction

The UK manufacturing sector is an industrial titan. The industry contributes over £220 billion in gross value added (GVA) annually, supports over 2.6 million jobs directly, and pays a salary that is 8% above the national average. The sector also accounts for 48% of all R&D expenditure, ensuring the UK's standing as a global leader in innovation and accounting for 17% of total private sector investment – worth over £41 billion. The value the manufacturing sector brings not only stems from the growth ambitions we have for the future, but the dividends paid on past investments. Today, the UK still houses one of the largest manufacturing sectors in the world, ranking 11th by output[1].

This is why investment often features in policy debate and tends to share the stage with our discussions about productivity. Since the global financial crisis in 2008, civil servants have worked tirelessly to ensure the UK is one of the best places in the world to start and grow a business – using flexibility in the tax system as its attraction. Investment is critical to achieving economic growth and key to creating good jobs. Therefore, it is critical to continue tracking what manufacturing businesses, the engines of our growth, are investing in, including their motivations and challenges, to inform policy makers of the right ways to design innovative policy levers. This report does just that by demonstrating how manufacturers invest relative to their size, and what their investment priorities are for the next year.

It's no secret that the tax burden on businesses is reaching a historic high, with the OBR predicting that we will exceed our post-WWII tax-GDP ratio by 2027[2]. Our national tax burden is already above the OECD average of 34%. Additionally, our national investment intensity has fallen short of our competitors over the last decade, with the UK investing (on average) 17% of its GDP over the last decade, compared to the OECD average of 22% in that same time[3]. If we raise our national investment intensity progressively up to the OECD level by 2035, that could generate an additional £670 billion of investment, both private and public, over the next 10 years[4] – which will support the Government's (?) ambitions for the Industrial Strategy.

Within this report, manufacturers were surveyed on their behaviours towards tax reliefs, to help us understand how they balance the rising tax burden and the role existing reliefs for R&D, capital, and patents play in the decision-making process. The research also explores the manufacturing sector's appetite towards intellectual property (IP) rights and proposes a bold collaboration between the private and public sectors to incentivise businesses to start, stay and grow in the UK.

It is clear from our findings that the UK already has a recipe for success, and that marginal adjustments to the existing incentive system could result in disproportionate gains to the wider economy. However, we must look beyond the short-term goals too and set responsible targets for the UK – such as making us a top five nation for tax incentives in investment and increasing our national investment intensity to meet or exceed the OECD average by 2035. Whilst we cannot forecast the direction of policy of the next decade, consistency and stability must be key attributes to our approach to growth.

[1] Make UK, UK Manufacturing – The Facts, 2025
[2] OBR
[3] Make UK calculations for investment intensity (investment as a share of national GDP) for the period 2015-2024 using OECD data for GFCF.
[4] Make UK estimate using OECD data on GFCF, and GDP forecasts from Oxford Economics

# Part 1:
# Investment trends in 2025

## Where is investment heading?

The manufacturing business investment environment in 2025 can be characterised as one of cautious overall quantity of capital expenditure but with targeted pushes. There has been consistency over recent years in terms of the wider basket of investment priorities for manufacturers, but they have competed with each other in response to the evolving needs of the sector. Even within the short space of a year, we have seen an increase in importance in the sector's intentions to invest in people over plant relative to 2024, where trend data has been compared from our research of the same period last year.

Despite investment in the workforce skills now taking centre stage for intended investment in the coming 12 months, investment intensity in physical equipment, namely plant and machinery, has taken a dive, with investment intensity within the sector now at its lowest level since 2017. Spending on innovation has held up over recent years but lacked the acceleration needed to deliver the transformation in businesses required to deliver the productivity enhancements.

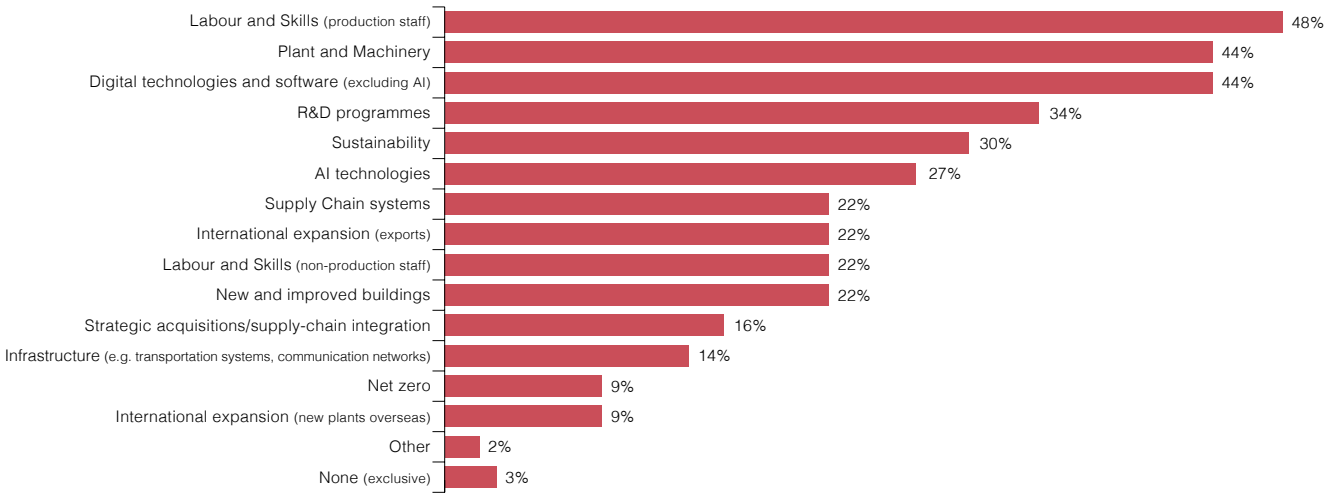
This section of the report will lay bare what the investment priorities of the sector are for the year ahead, reveal the factors that are driving these decisions and see where variances emerge, particularly when comparing priorities between smaller and larger firms, such as original equipment manufacturers (OEMs).

## Investment Priorities – what are firms backing in the coming year?

The headline change in priorities for manufacturers is seen in the rank shift of labour and skills now topping the chart as the highest investment priority for the year ahead. The top three priorities of labour and skills, plant and machinery and digital technologies are the same as the 2024 edition of this research, as all have remained consistent in their priority status, however, labour and skills placed second in last year's report.

**Chart 1 – Manufacturers' investment priorities for the year ahead**

% of respondents indicating what their top business investment priorities are for the year ahead, respondents could select many




Source: Make UK/RSM Investment Monitor Survey 2025

The shift towards prioritising skills investment for the year ahead reflects the changes in the expected future labour market for the sector. The UK's manufacturing sector has long grappled with systemic challenges related to skills in the sector – primarily induced by a lack of appropriately skilled young and early-career applicants to fill needed roles. This challenge has been compounded over the years by the average age of the workforce, which is higher than in other sectors of the economy[5], leading to higher levels of natural wastage and institutional skills loss over time. Furthermore, many of our surveys, including last year's *Investment Monitor 2024*, highlight that a lack access to skills is a barrier to adopting modern technologies[6].

The data reveals that 48% of the sector is responding to this challenge with greater intensity, as skills investment tops the sector's investment priorities. While some of this anticipated investment will include spending external to the business – such as recruiting new apprentices – the lion's share will be focused on upskilling within the business to 'self-generate' skills, as experience has shown that turning to the market for these required skills has proven to be insufficiently effective.

"Skills investment is the new highest manufacturing business priority for the year ahead, a move to ensure labour continuity in businesses' futures."

Despite topping the chart, the tight grouping of the top three investment targets reveals the relative importance of plant and machinery and digital technology, with each holding an equal 44% share. This trifecta is the main anticipated driver of growth for manufacturing in the coming year, yet other enabling priorities such as R&D, sustainability, and AI are also very important to manufacturers.

[5]ONS, Census 2021
[6]Make UK/RSM, Investment Monitor, 2024

# DIFFERENT SIZES, DIFFERENT PRIORITIES

Depending on the size of the business, whether differentiated by turnover or headcount, the investment priorities will be different. Our data shows this, with significant variation between larger and smaller businesses in terms of their investment priorities for the year ahead. Generally, across most investment priorities, we find that smaller businesses (<250 employees) emphasise many of the selectable themes at a greater share than their larger counterparts (>250 employees). This tracks, as smaller fast-growing businesses may have more relative growth potential within, and so prioritise investing in improving productivity through investments in digital technologies or sustainability. This is characterised by the propensity to prioritise R&D programme investment by company size, as is shown in Chart 2.

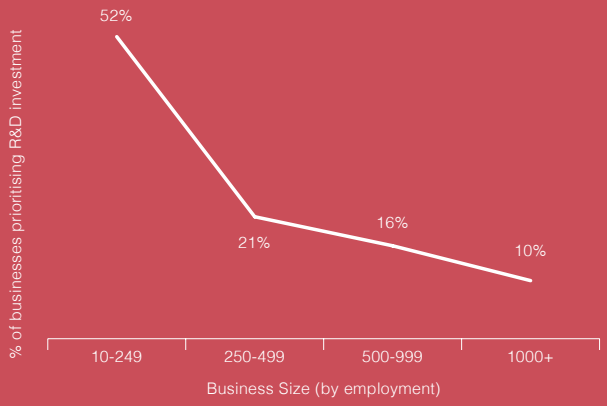
This sharp drop in prevalence of prioritised R&D investment beyond the 10-249 business size category demonstrates this, indicating that smaller businesses are more prolific in prioritising R&D investment than business with more than 250 employees. This may additionally reflect the tendency for larger businesses to subcontract R&D projects to smaller, specialised, SMEs – demonstrating how SMEs can be an incubator for innovation.

When we apply the same analysis to the priority of *investing in new plants overseas*, the picture skews towards larger companies (250 or more employees), albeit with a lesser correlation (Chart 3).

While it is intuitive that larger companies are more likely to face physical capacity constraints, and therefore need to invest in expansion, it is positive that the data confirms this. Interestingly, the priority for international expansions peaks for businesses in the 500-999 category, then drops for firms with over 1,000 employees, indicating there may be a limit to the appetite for physical growth in a business. This may be because they have already made the necessary investments in global capacity.

**Chart 2 – Smaller firms have a greater propensity to prioritise R&D investment**

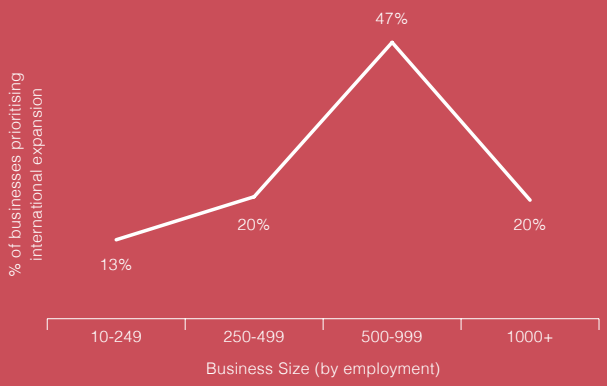
% of respondents indicating whether they are prioritising R&D investment in the year ahead, split by headcount band




Source: Make UK/RSM Investment Monitor Survey 2025

**Chart 3 – Investment in international expansion is skewed to larger firms**

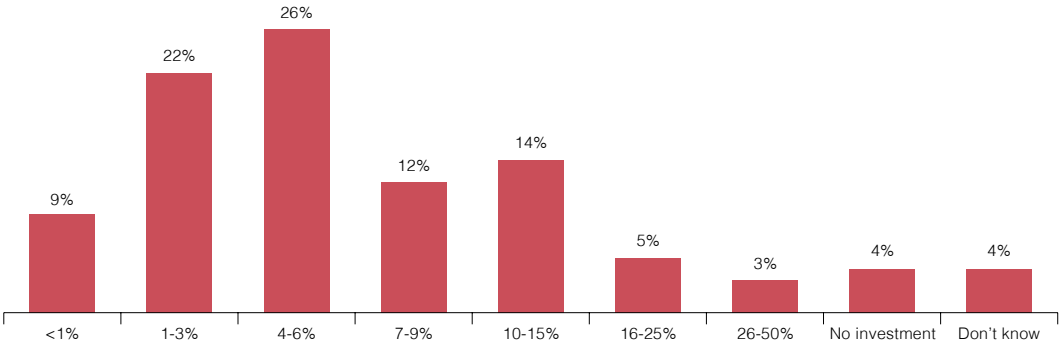
% of respondents indicating whether they are prioritising international expansion in the year ahead, split by headcount band




Source: Make UK/RSM Investment Monitor Survey 2025

**Chart 4 – What proportion of turnover are firms investing in machinery?**

% of respondents indicating what percentage of their turnover they invest annually in plant and machinery




Source: Make UK/RSM Investment Monitor Survey 2025

## Investment intensity over recent years

The fieldwork set out to understand what proportion of manufacturers' turnover was being spent on investment annually. This is a metric we have maintained as a feature of the *Investment Monitor* over multiple years, allowing us to analyse how that proportion has evolved over time.

Most manufacturers (58%) invested less than 6% of their turnover on plant and machinery investments, with the biggest group in the 4-6% category. If we calculate a weighted average across the whole sample, we find that average investment in plant and machinery in the past year has been 6.8% of turnover for a typical manufacturing company, in other words, for every £1 million in turnover generated by the manufacturing sector, there is £68,000 invested in plant and machinery. This may differ from business to business as some companies can be more capital intensive than others.

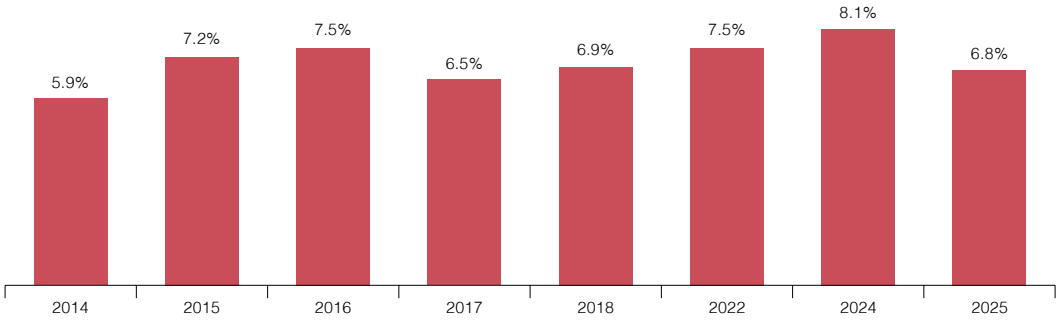
"In the past year, for every £1 million in turnover generated by the manufacturing sector, £68,000 was invested in plant and machinery on average."

While this figure alone is revealing, greater insight can be extracted by analysing how the 6.8% figure has evolved over time, as this would proxy for how investment intensity has evolved too.

Our analysis, shown in Chart 5, reveals that investment intensity in plant and machinery is at its lowest average level since 2017. Although the peak in this series is shown only last year, in 2024, where it stood at 8.1%, that intensity has dropped rapidly in the latest 2025 data.

**Chart 5 – Machinery investment intensiveness over time**

% weighted average of plant and machinery investment intensiveness as a proportion of turnover 2014-2025




Note: Prior to 2022, the investment intensity survey question calculated average investment as a share of turnover on a 24-month basis. However, this does not affect data comparison to recent data as 12-month and 24-month averages are assumed to be the same.

Source: Make UK/RSM Investment Monitor Survey 2025, Make UK Investment Monitor back data 2014-2024

If we apply the same methodology as before, that will mean, in 2024, on average, for every £1 million generated in turnover by the sector, ~£81,000 was invested in plant and machinery. Now, in 2025, the same would suggest that for the same amount generated in turnover, a lesser ~£68,000 is invested. This represents an average decline of £13,000 invested per million in turnover in 2025 compared to 2024.

"For every million pounds generated in turnover by the manufacturing sector a year, average investment in plant and machinery has dropped by £13,000 between 2024 and 2025."

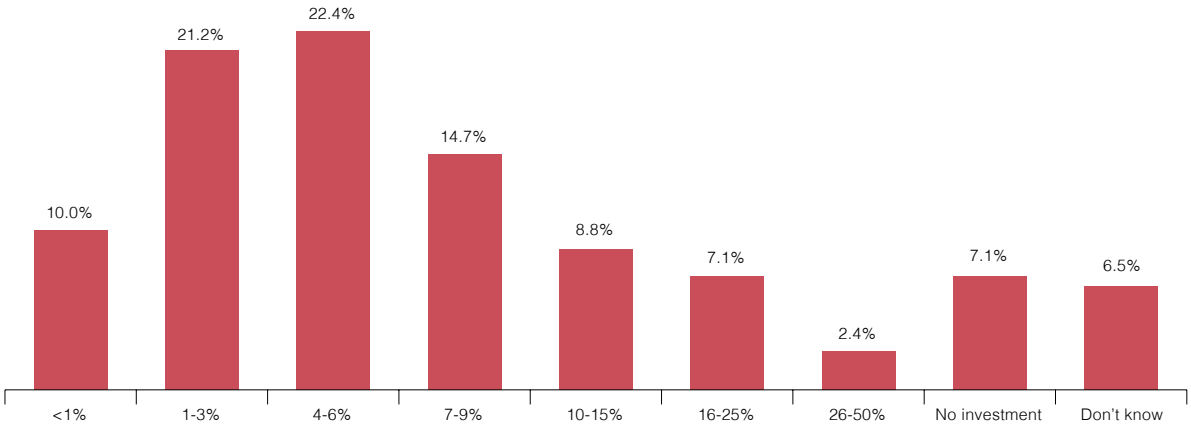
Another core avenue of investment is found in research and development (R&D). As expected, R&D investment intensity is comparatively lower than for plant and machinery, though the latter's intensity has dropped to near parity with R&D investment intensity.

The weighted average across all categories comes in at a similar 6.2% for R&D, or £62,000 per £1 million generated in turnover. In comparison to 2024, this trend shows us that R&D investment intensity has remained relatively consistent, only dropping a little from 6.5%[7] to 6.2% this year.

When we contrast the evolution of investment intensity over time, we can see that R&D investment has remained more resilient, or rather, the sector has prioritised the consistency in which it invests in R&D over the past two years. Explaining some of this variance will be the sunk-cost nature of investment in R&D in comparison to investment in plant and machinery. R&D programmes cancelled mid-way are likely to incur costs without returns to a manufacturing business, whereas cancelled investment in plant and machinery is more likely to have a moot effect, since machinery investments tend to be leveraged in debt and can be disposed of if no longer required.

**Chart 6 – Investment Intensity in research and development**

% of respondents indicating what percentage of the company's turnover was invested in R&D in the past twelve months




Source: Make UK/RSM Investment Monitor Survey 2025

[7]Make UK/RSM, Investment Monitor, 2024

## Investment – The driving factors

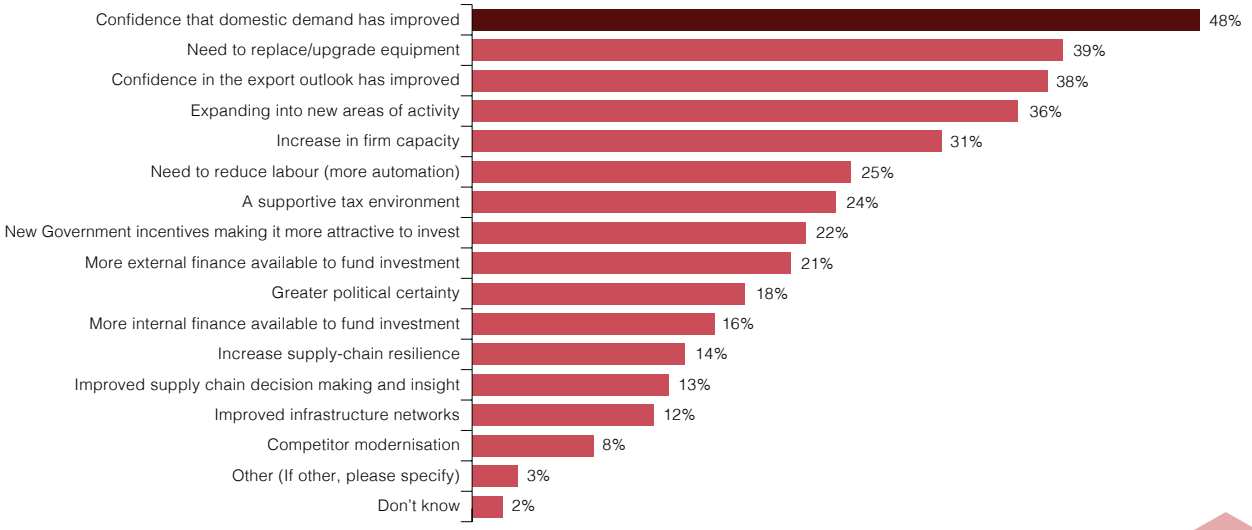
Of the top three drivers reported to us by the sector, two of them relate to demand conditions, evidencing the supposition that the investment drumbeat is strongly associated with the need to improve operational capacity. However, equipment wastage is very high on the agenda, coming in as the second most cited driver for investment, with 39% of the sector reporting the need to replace or upgrade equipment as a primary driver for any increased investment in the coming year. This latter priority has featured near the top of the agenda for manufacturers since the first *Investment Monitor* survey in 2014.

Just under 1 in every 2 manufacturers (48%), say that a primary driver for their investment plans is the confidence that demand has improved. This positions demand confidence as the most prominent factor for investment decisions in the coming year, as reported by UK manufacturers.

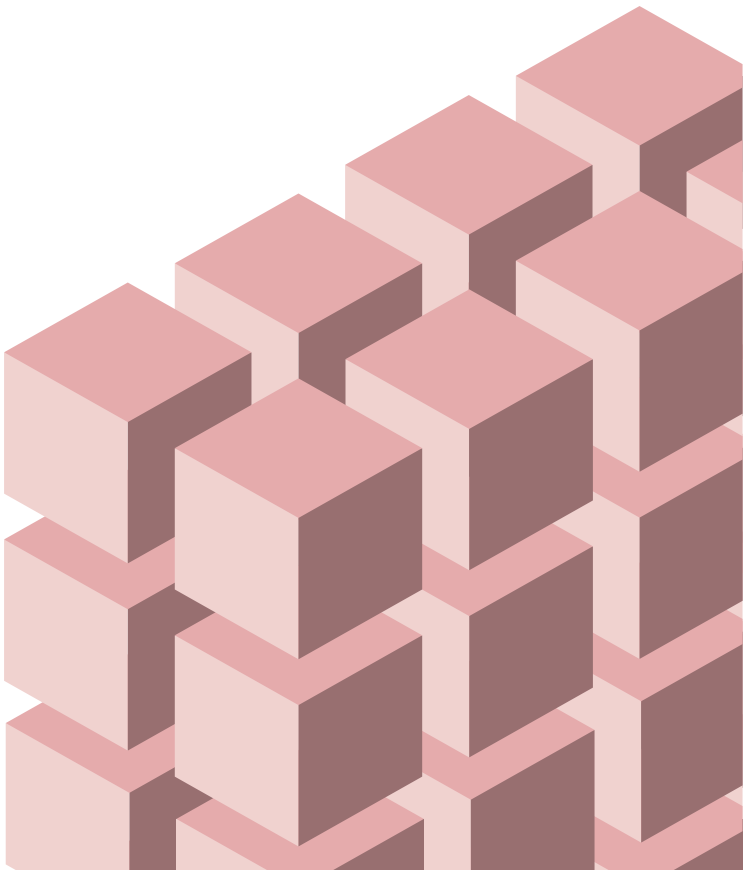
"Confidence that domestic demand conditions have improved is the driving factor for investment decisions in the year ahead."

**Chart 7 – The factors influencing manufacturers to invest in the year ahead**

% of respondents indicating which factors are influencing their investment decisions in the year ahead




Source: Make UK/RSM Investment Monitor Survey 2025



## WHAT ABOUT THE LONG-TERM TRENDS?

It has long been touted that the UK (including all private and public investment) underinvests in comparison to its peers in the OECD. This can be verified by examining the investment intensity of the nation (investment as a share of GDP) which indicates that annually we spent, on average, the equivalent of 17% of our GDP on investment in the last decade, in comparison to the OECD average of 22%[8].

The Government has unveiled a long-term industrial strategy, lasting until 2035, and as a nation we must use investment as a fuel to reach our goals for economic prosperity. If we target a 0.5% increase in our national investment intensity every year, starting from 2026, then by 2035 we would match the OECD average and, in that time, generate an additional ~£670 billion in public and private investment. Of this, the UK manufacturing sector could contribute ~£43.6 billion. This would be a sensible goal for the UK Government[9].

It is clear that for manufacturers, confidence remains paramount to influencing the decision makers today. Although labour and skills investment has increased in priority for businesses, investment in capital, digital and innovation maintain important roles in a typical business strategy. However, the UK continues to lag on the global stage in terms of its national investment intensity. There is a question of what we do about it, and what mechanisms government policy can use to influence the paths for growth. The remainder of this report analyses how businesses use popular tax reliefs to support their investment ambitions. There is an additional focus in this latest research to highlight the power of intellectual property (IP), and how we can use our world-leading IP system to create a business environment that rewards UK manufacturers for starting, staying and growing their ideas on British soil. The report ends with policy recommendations focused on fiscal measures, alongside long-term ambitions for the UK.

"Progressively increasing our national investment intensity to match the OECD average by 2035 could generate up to an additional £670 billion in new investment."

[8]OECD data for investment intensity (investment as a share of GDP) in GFCF, 2015-2024
[9]Make UK estimate using OECD data on GFCF, and GDP forecasts from Oxford Economics

# Part 2:
# Balancing burdens and reliefs: incentivising productive business investment

### Tax Policy and investment behaviour

In 2025, tax changes, such as higher employer national insurance contributions (NICs) and adjustments to business rates, capital gains, and inheritance taxes, have increased the overall tax burden on UK manufacturers. The NICs alone added approximately £1,000 per employee to the bottom line. It follows that these changes to business taxes and tax reliefs may have altered investment decisions and the timing of large investments.

"54% of manufacturers adjusted their investment plans in response to recent changes to business taxation."

However, many manufacturers continue to invest in growth, with 29% planning to increase their investment in response to business tax changes. Conversely, 1 in 4 (25%) say they will in fact decrease their investment due to changes to tax policy. The remainder (46%) expect no change to their plans.

The finding that is most striking is that for 54% of manufacturers investment plans changed in response to recently updated business tax policy, regardless of the direction the needle moved. What we do not know yet, is whether these investments will be focused on growth or navigating these new business conditions. For example, previous Make UK research has found that many manufacturers will balance the cost of higher NICs primarily through reducing headcount, limiting wage growth, and passing on costs as higher prices[10].

### Investment behaviour in the presence of tax reliefs

Tax reliefs are intrinsically linked to strategic investments and growth for UK manufacturers. They help reduce the effective cost of investing in capital equipment, innovation, and productivity-enhancing technologies. By improving cash flow and making projects financially viable, reliefs such as R&D Tax Credits and Full Expensing enable manufacturers to take on strategic investments that might otherwise be delayed or abandoned – especially in a sector where margins are often tight and upfront costs can be substantial. Unsurprisingly, manufacturers highlight these reliefs as being particularly important to the investment decision process.

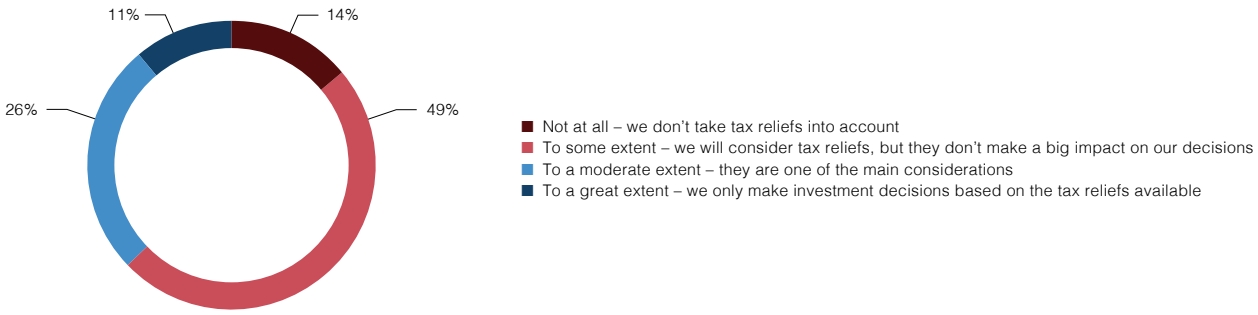
"84% of manufacturers take account of available tax reliefs for their investment choices"

Our survey finds that in total, 84% of manufacturers consider the availability of tax reliefs when making investment decisions, and 37% consider them to a moderate or great degree. This is an astonishing finding as it demonstrates the importance of Government interventions such as making Full Expensing capital allowances permanent. HMRC's own research found that the temporary super-deduction capital allowance impacted the behaviours of 29% of businesses across the UK in its final year, though most of these (26%) used it to bring investments forward. Only 11% had invested more than they planned, indicating that generous tax incentives can result in an absolute increase in investment too[11].

[10]Make UK/PwC, Executive Survey, 2025
[11]HMRC, Research on Capital Allowances (published May 2025)

**Chart 8 – More than 8/10 manufacturers take account of available tax reliefs for investment decisions**

% of respondents indicating degree to which tax reliefs impact investment decisions




Source: Make UK/RSM Investment Monitor Survey 2025

Certain tax reliefs, like R&D tax credits and capital allowances are more popular than others for manufacturers. According to the survey, the share of manufacturers that used different tax reliefs for its investments include:

1. R&D tax credits (61%)
2. Annual Investment Allowance (55.3%)
3. Full Expensing Capital Allowances (48%)
4. Business Rates Reliefs (e.g. green reliefs) (32%)
5. Patent Box (32%)

R&D tax credits are understandably the most favoured tax benefit, which supports innovation and risk taking in UK manufacturing. As the industry accounts for 48% of total R&D spend, this relief is paramount to supporting the sector's activities.

However, the system has been increasingly scrutinised for its efficiency, and, in April 2024, the Government announced that the R&D Expenditure Credit (RDEC) scheme and SME scheme would be merging. Today, businesses can claim 20% relief on qualifying expenditure, and if they are loss-making, they may qualify for the Enhanced R&D Intensive Support (ERIS). However, the new system has faced its own criticisms for becoming less supportive of SMEs, despite identifying that these businesses are more likely to prioritise R&D programmes for future investment.

## WHAT CAN I USE R&D TAX CREDITS FOR AND HOW MUCH COULD I GET?

R&D tax credits can be used when a project or investment seeks to achieve an advance in overall knowledge or capability in a field of science or technology[12].

We know that a typical manufacturer invests approximately £62,000 for every £1 million in turnover/ sales revenue (assuming there is a manufacturing company with a total turnover of £1 million, incurring qualifying R&D expenditure of £62,000 and in a tax adjusted loss position for an accounting period).

If that business were to make use of the merged R&D tax credit scheme, they could obtain a net cash benefit of **£10,044 (£62,000 x 20% less corporation tax at 19%)**.

If the business is a loss-making R&D intensive SME (>30% of total expenditure on qualifying R&D), then on this same investment, under the Enhanced R&D Intensive Scheme they could be entitled to a payable credit from HMRC of **£16,721 (62,000 x 186% x 14.5%)**[13].

Despite the reduced rate of return on relief available to SMEs, and the increased level of administration, the scheme remains a significantly positive tax incentive. Manufacturers should always consider making use of this tax relief.

[12]HMRC
[13]Estimated using HMRC guidelines on claimed ERIS support, following the procedure to claim an enhanced expenditure for a loss-making R&D

Other commonly claimed reliefs are the Annual Investment Allowance (AIA) (55%), and Full Expensing (48%). The AIA allows businesses that purchase qualifying assets – such as machinery, tools, and equipment – to deduct this value against taxable profits in the tax year the expenditure is incurred[14]. Full Expensing goes further by enabling companies to immediately deduct 100% of eligible capital expenditure with no cap, making it especially attractive for larger investments. By improving cash flow and lowering the effective tax burden, these reliefs make it easier for manufacturers to commit to long-term investment plans and upgrade their operations without delaying for financial reasons[15].

Patent Box and business rate reliefs were each claimed by around 32% of respondents. Lower uptake of these may be partly explained by a lack of awareness, accessibility and eligibility.

**Despite their popularity, and significance to decision-making – manufacturers continue to face barriers to accessing tax reliefs.**

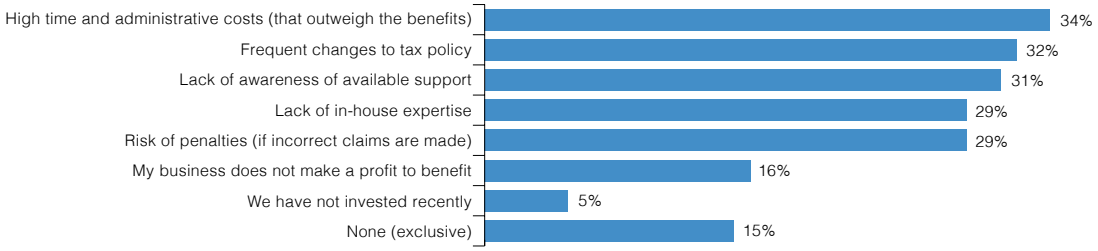
Manufacturers face several barriers when accessing any investment tax relief. High administrative and time costs were cited by 34% of respondents, while 32% pointed to frequent changes in tax policy. A lack of awareness (31%) and insufficient in-house expertise (29%) were also common challenges. Additionally, 29% expressed concern about the risk of penalties for incorrect claims. These issues are particularly acute for smaller firms, which are often time poor, resource constrained and lack an understanding of how to maximise the use of these benefits.

Furthermore, the lack of a clear "winner" amongst the barriers suggests the challenges differ from business to business. Rather than discussing each of these barriers individually, assessing them collectively is more insightful. For example, administrative costs can be related to frequent changes to tax policy, which in turn impacts awareness as changing tax policy requires businesses to re-educate themselves with new systems. This can have the undesired impact of reduced engagement with public support, despite noble intentions to improve efficiency. As an example, R&D tax credits are the most popular scheme for manufacturers. First introduced in the year 2000, businesses have had 25 years to familiarise themselves with it. However, the recent changes to the R&D tax system have already demonstrated a reduction in claims[16].

These barriers to access can be solved by ensuring there is a long-term, consistent strategy implemented in tax policy. The Government's recently announced Corporate Tax Roadmap is one example of a consistent strategy, which should be extended to all types of tax policy.

**Chart 9 – A mixed bag of challenges prevent businesses from accessing valuable tax reliefs**

% of respondents indicating barriers to accessing tax reliefs for investment




Source: Make UK/RSM Investment Monitor Survey 2025

[14]Make UK Investment Health Report
[15]More information on capital allowances can be found in the report Make UK/RSM, Investment Health, 2022
[16]HMRC, R&D Tax Credits Statistics (2025)

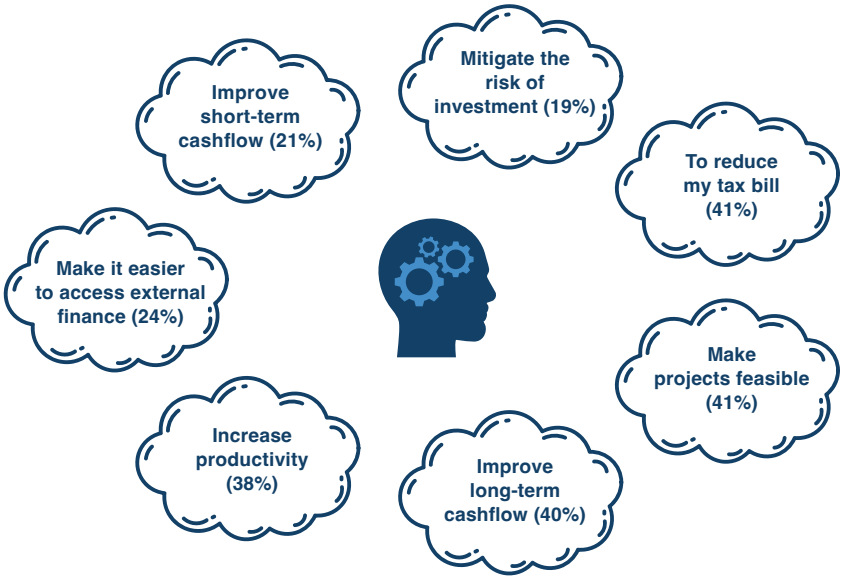
## Through the eyes of the manufacturer

### What reasons do decision makers consider when using tax reliefs for investment?

Manufacturers use tax reliefs for a range of strategic purposes. The most common motivations include improving long-term cash flow and making projects feasible, each reason referenced by 41% of respondents. Reducing the overall tax bill is also a key driver, mentioned by 38%. These decision factors to increasing the probability of using tax reliefs further demonstrate the value of a relief in improving the viability of investment projects, which is dependent on the expected outcome.

The evidence shows that tax reliefs are crucial to manufacturer's investment decisions, and further, that understanding the relationship between tax burden and tax relief can support growth by enabling additional investment that might not occur otherwise. However, recent tax changes have increased the burden on businesses and without adjusted support to balance the scales, we risk derailing the ambitions of our industrial strategy.

**Figure 1 – The reasons a manufacturing business takes advantage of tax reliefs for investment (e.g. for Capital, R&D, and Innovation)**




Source: Make UK/RSM, Investment Monitor Survey

# Part 3: Closing the investment gap with Intellectual Property power

Whilst tax burdens and tax reliefs seesaw the cost of investment, it is also important to consider the wider business environment that supports investment activities. While more work can be done to increase the take up of tax reliefs, it is the low use of the Patent Box which is particularly alarming in this survey. Despite this, Government is already exploring innovative financing models based on intangible assets – something manufacturers could benefit from. This section explores how an interaction between a public support (the Patent Box) could link with growing interest in a new private market (IP-based lending).

Intellectual Property (IP), such as patents, trademarks or industrial designs, plays a key role in incentivising innovation through legal protections. In 2023, over 3.6 million patents and 15 million trademarks were filed globally, with the UK accounting for 5.4% of industrial design filings[17]. In UK manufacturing, IP helps protect early-stage innovations and enhances the appeal of projects to external investors.

As the UK sets the foundations for its industrial strategy, with the IS-8 firmly in the spotlight, the interactions between fast growing businesses and the environment for IP protection will play a significant role in accelerating innovation. This links to the use of tax reliefs – particularly the Patent Box – whilst capital allowances and R&D tax credits also play a role, in creating a business environment that directly links IP rights to economic growth.

It is time to look at the system we use to encourage innovation by reviewing the tax incentive regimes designed to promote investment, as well as the funding mechanisms that allow innovative businesses to access finance for their growth ambitions. But first we must examine how important the use of IP rights is to UK manufacturers today.

### Do manufacturers register their unique inventions and processes for patents?

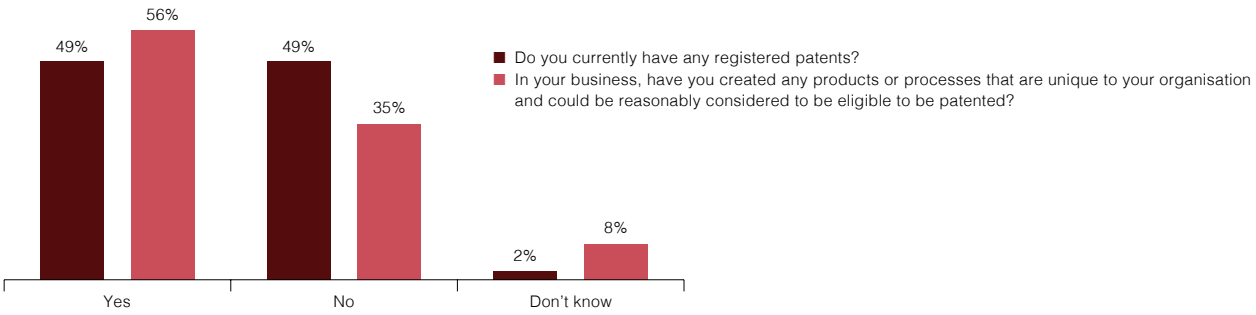
Approximately half (49%) of UK manufacturers own registered patents, whilst an equal share of businesses do not own any registered patents (chart 10). It is not necessary for every business to own a patent to succeed as many businesses can work with existing patents through contractual agreements, or exclusive licensing. However, 56% of manufacturers believe they have created unique products or processes that could be eligible for patenting.

[17]WIPO Statistics, 2024

This raises additional questions as to why businesses are not patenting ideas, or if there is a logic to not doing so. Combining the data here enables us to build a picture of what is a realistic proportion of the industry that do not apply for IP protections for eligible technologies. Shockingly, one in four manufacturers meet this characteristic (Table 1).

**Chart 10 – About half of manufacturers have registered patents, and more than half have patentable products/processes**

% of respondents indicating if they have patented technologies vs % share of respondents indicating whether they have patentable technologies




Source: Make UK/RSM Investment Monitor Survey 2025

**Table 1: Nearly 1/4 do not patent their unique technologies or processes, even if they believe it to be eligible**

| | | In your business, have you created any products or processes that are unique to your organisation and could be reasonably considered to be eligible to be patented? | | |
|---|---|---|---|---|
| | | Yes | No | Don't Know |
| Do you currently have any registered patents? | Yes | 93% | 5% | 2% |
| | No | 23% | 66% | 11% |
| | Don't know | 0% | 25% | 75% |

Source: Make UK/RSM, Investment Monitor Survey

Why do nearly one in four manufacturers, who believe they have "patentable" products and processes in their businesses, choose not to register for eligible IP protections? Make UK's discussions with members indicate at least two reasons that are rationalised by decision-makers.

**Cost:** Some manufacturers, especially SMEs, may find it challenging to afford the cost of applying for patents, legal support, and the research time involved in ensuring no equivalent products/processes already exist. In addition, there is an ongoing cost to maintaining IP, as patents, copyrights, designs, or trademarks are not registered in perpetuity. This can mean that the perceived cost of registering eligible IP outweigh its perceived benefits. However, Government policy interventions, such as making tax reliefs more generous and accessible for UK patented technologies could sway manufacturers to look at IP protection as a "good" business decision.

**Transparency:** Businesses highlighted that IP protections themselves can create a risk of exposing innovative ideas, creating opportunities for competitors to replicate similar products/processes (that are sufficiently distinguishable as not to infringe upon existing, registered products). The price of obtaining monopoly power for an invention comes at the expense of transparency, and this can be a barrier to some businesses in engaging with patents. However, it could also be argued that the cost of not patenting a product or process especially if that un-patented product is scaled to success is itself a risk factor. For example, the MRI machine used widely in healthcare was invented in the UK, but larger US corporations like GE were able to commercialise and scale the technology outside of the UK. Whilst the UK is still credited with its invention, the benefits of commercial growth accrued elsewhere.

The system of providing access to IP rights must therefore be reviewed. We propose improving the accessibility of tax reliefs to increase business engagement with IP systems. For example, the Patent Box can achieve this directly, and innovative access to finance solutions, such as IP-based lending, could open more doors to growth.

## THE PATENT BOX RELIEF – THE LEAST USED TAX RELIEF BUT THE GREATEST OPPORTUNITY

The Patent Box is a tax incentive that was introduced in 2013 to incentivise the commercialisation of patented inventions in the UK, by offering a reduced corporation tax to businesses. It's most forgotten feature by manufacturers is the link to R&D tax credits, as businesses that are R&D intensive may also own more IP resulting in the opportunity to reduce their tax burden.

**How does it work?** In simple terms, the Patent Box allows a business to reduce its corporation tax from 25% (or 19%) to 10% for profits that can be attributed to a patented idea that is owned by the business.

This is a great benefit and given 37% of manufacturers consider tax reliefs to a great or moderate extent for investment decisions this is a lost opportunity.

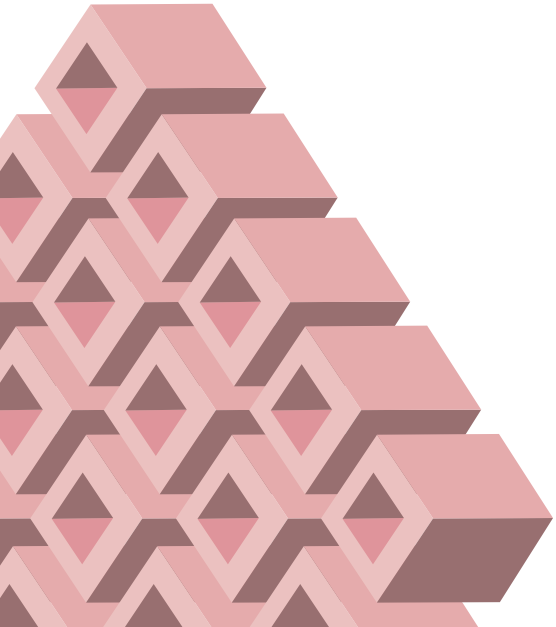
According to HMRC, in 2023 only 1,600 companies elected into the Patent Box scheme with manufacturing the top claimant sector (similar to R&D and capital allowances). Large companies also accounted for 94% of all claims. This may reflect the resources larger organisations have to maximise the benefits of tax reliefs, though it can also mean that many patents are owned primarily by larger businesses[18].

Given that only 32% of manufacturers have ever claimed the Patent Box (compared to 61% for R&D tax credits and 55% for capital allowances) the starting point for the Government is improving awareness and accessibility. As is discussed in part 4, nearly 60% of manufacturers want the Patent Box to be easier to use with simpler guidelines readily available.

### Finding value in intangible assets – A modern approach to IP-backed finance:

In the most recently published industrial strategy, £4 billion in additional funding to the British Business Bank (BBB) was announced to support scale up companies in the UK. In addition to this, there is the intention to explore tacking access to finance issues for "IP-rich" companies in the UK by making use of novel IP-based lending facilities, where lenders can support growth objectives by using intangible assets as collateral. Such a concept is still in its infancy in the UK, though some institutions in the UK are already providing finance to creative sectors, as well as manufacturing companies. For example, a Bristol-based prosthetics manufacturer (Open Bionics) secured over £600,000 in an IP-backed loan which led to the opportunity for this innovative British manufacturer to expand into the US[19].

These examples highlight the potential of IP-based lending for manufacturers. By combining this with Patent Box relief and R&D tax credits, our aim is to efficiently combine public and private mechanisms to create an environment that that rewards innovation and encourages businesses to protect and commercialise their IP. Ultimately this will boost UK economic growth, employment, and living standards. This should also help change the existing culture of some manufacturers unwilling to apply IP protections to their ideas, products, or processes due to the perceived lack of value from doing so.



[18] Patent Box relief statistics: September 2024 - GOV.UK
[19] Prosthetics firm secures six-figure funding for overseas expansion

### The Case for IP-Backed Loans in the UK

Research by the British Business Bank (BBB) found that IP-rich firms demonstrated a lower credit risk than their counterparts. However, until recently there have been few opportunities for organisations to leverage their IP values like tangible assets and it is estimated that there could be a funding gap of up to £870m annually[20].

Furthermore, in 2024 the World Intellectual Property Organisation (WIPO) launched a report that highlighted that the UK meets the three essential conditions to develop IP-backed lending facilities to support SMEs to scale up. These include many innovative businesses that demonstrate high growth potential, a well-established legal framework for IP, and a legal system that enables security to be taken over movable, intangible assets[21]. This presents a significant opportunity for the sector to access new forms of scale up finance.

To capitalise on this opportunity, rigorous testing and experimentation are required to identify how IP-based finance works best. One of the solutions being explored currently are **regulatory sandboxes** where lenders can engage on IP lending. In these sandboxes, special conditions could be applied to SMEs with better terms to increase engagement with IP-rich industries, of which the manufacturing sector would certainly be one. Make UK would support such a recommendation for the long-term benefit of the manufacturing sector.

## WHAT ARE REGULATORY SANDBOXES?

The world's first regulatory sandbox was launched by the Financial Conduct Authority (FCA) in 2016. It was created as a response to the explosion of innovation in the FinTech sector to enable experimentation of products before they scale. A regulatory sandbox can ensure that innovative solutions are tested within a controlled environment, and experimented in an environment with relaxed regulations, under the oversight of a regulator.

This gives the regulator an opportunity to manage the growth of any innovations that could impact consumers. Since then, this solution has been deployed several more times to test innovation in services and is now being explored for the next big opportunity in innovation – specifically within AI. The FCA also accepts applications for businesses with innovative ideas to test within a regulatory sandbox[22].

Adopting this concept for IP-based lending fits the scenario perfectly. Currently, there is limited understanding of the challenges of commercialising this innovation, which can lead to concerns from prospective lenders who fear the regulatory burdens can outweigh the benefits of the risk. A regulatory sandbox creates an opportunity for the financial sector to refine IP-based lending products to ensure they are beneficial to all interested.

[20]British Business Bank, Using Intellectual Property to Access Growth Funding
[21]WIPO, Unlocking IP-Backed Financing Series, 2024
[22]Regulatory Sandbox | FCA

# Part 4:
# Improving 'The Big Three' tax reliefs

The statistic that is perhaps the most striking and yet influential in this survey, is that more than 8 in 10 manufacturers in the UK, to at least a degree, consider how a tax relief impacts the viability of an investment project before making a decision. As such, in some cases the availability of a tax relief, and its effect relative to a tax burden, can be the deciding factor between proceeding or cancelling a project entirely.

Still, there are many other factors in play as we know, such as the availability of skills, overall return on investment (ROI), or access to finance. Tax reliefs cannot impact all these challenges, but what it can do is make projects that are "on the fence" become financially viable as well as encourage more risk taking.

"84% of manufacturers take account of available tax reliefs for their investment choices."

This conversation is now far more pertinent today, particularly as the current tax burden stands at 36.5% according to the Office of Budget Responsibility (OBR), putting the UK slightly above the OECD average of 34%[23]. The heavier the tax burden, the more work that needs to be done to improve the reliefs available to businesses so that they are not crippled into no longer investing in growth. Accessibility has historically been a challenge with the largest, well resourced, manufacturers using tax reliefs to their optimal state. In this section, only the big three tax reliefs were explored as part of the research, and manufacturers were questioned on their main preferences to adjusting the available support. Each one is discussed below.

### Improving capital allowances

Capital allowances allow manufacturers to deduct, in part or full, the value of their investments in capital equipment from their owed corporation tax. Historically, the manufacturing sector has been one of the largest claimant sectors given its capital-intensive nature. There are several different types of capital allowances, depending on the nature of a company's investment, including the Annual Investment Allowance (AIA), Full Expensing (FE) or even allowances for investments in structure and buildings. Make UK has long campaigned for an increase in the value and accessibility of capital allowances by making the £1m threshold for the AIA permanent, as well as extending access to FE indefinitely. Manufacturers today enjoy some of the most generous capital cost recovery regimes in the OECD, with the UK ranking 15th-best ahead of many of our G7 peers like the US, Germany, or Japan[24].

There is room for improvement in capital allowances, with 62% of businesses saying that capital allowances should be made easier to claim for software investments. According to the Capital Allowances Manual, software can be treated as a "plant" and can be claimed for under certain conditions, such as if a computer programme is treated as a tangible fixed asset. Whilst there is detailed guidance available, we find that manufacturers lack the awareness or expertise to understand when software can and cannot be claimed against. The Government's Corporate Tax Road Map commits to simplification of the tax relief system, and this is one area where we want to see progress.

Additionally, a sizable share (45%) want full expensing to be expanded to businesses that lease out plant and machinery. Our evidence suggests that smaller

[23]The UK's tax burden in historical and international context - Office for Budget Responsibility
[24]Capital Allowances | Capital Cost Recovery across the OECD, 2025

manufacturers are more likely to lease plant & machinery than buy outright[25], therefore expanding the FE regime to leasing business could support investment in this sector. It could also meet the demands of businesses who say they prefer to lease than buy outright, and could support efficient investment decision making, as well as support the adoption and experimentation of large-scale investments into modern technologies, including robotics and Internet-of-things (IoT).

### Improving R&D tax credits

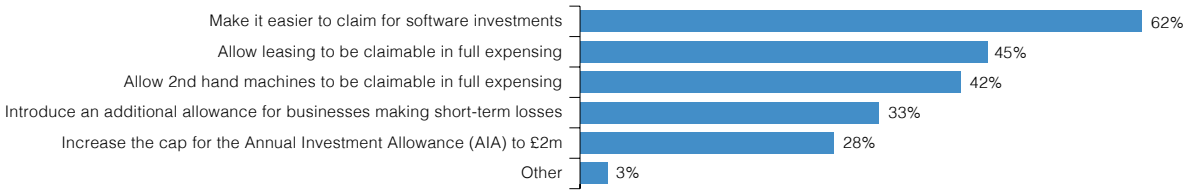
The R&D tax credit system must continue to support innovation investment.

Since changes were announced to the relief, Make UK members have reported a bolstering of red-tape increasing the time costs to very time-poor businesses. HMRC's own statistics report there was a 21% drop in R&D claims in 2023[26]. This was primarily rooted in a drop in SME claims indicating a reduction in R&D investment, coupled with more stringent processes for assessing claims. Whilst it is necessary for the Government to weed out fraudulent activities, there is a material risk that genuine R&D activities, particularly in specialist SME businesses may miss out on claims. As the survey highlights, SME businesses also prioritise R&D programmes far more than larger businesses. Therefore, R&D tax credits remain paramount to innovation, and any future adjustments should consider the impact on SMEs.

Unsurprisingly, 42% of manufacturers want the claims process for R&D tax credits to be simplified, by removing red tape and increasing guidance to reduce rejection rates. More importantly, 48% also want the relief to be enhanced further to allow businesses to claim for investment in capital, in other words equipment which may be purchased for the purpose of R&D.

**Chart 11 – Make capital allowances easier to use on software and expand Full Expensing to include leasing**

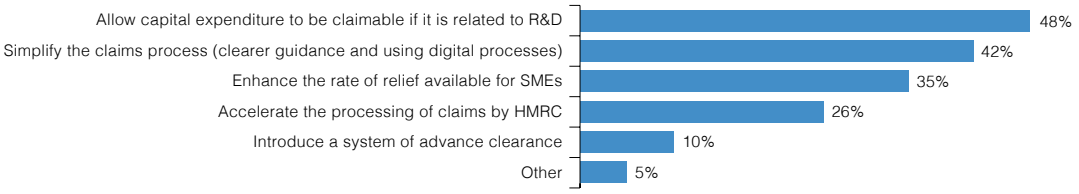
% of respondents indicating what changes they would most like to see in capital allowances




Source: Make UK/RSM Investment Monitor Survey 2025

**Chart 12 – Allow capital expenditures intended for R&D to be claimable and simplify the claims process**

% of respondents indicating what changes they would most like to see in R&D tax credit system




Source: Make UK/RSM Investment Monitor Survey 2025

[26]HMRC, R&D Statistics, 2025

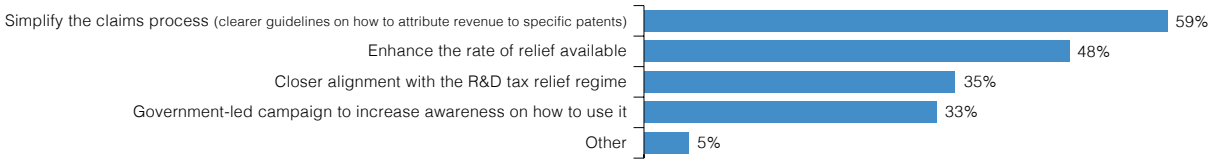
## Improving Patent Box

Only 32% of manufacturers use the Patent Box, though according to official statistics the manufacturing sector is still one of its dominant users. The results of this survey, which indicated that more manufacturers could apply for IP protection on their unique ideas and choose not to, presents a substantial opportunity to change the culture of innovation in the UK. As a result, 59% of manufacturers want the Patent Box relief process to be simplified with clearer guidelines on how to attribute revenue to specific patents. 48% also want enhanced reliefs, though with limited use it is difficult to say what benefit this would bring to the UK on a national scale.

Although only 33% of businesses want a campaign to increase awareness, we believe that this should be the starting point for the public sector which will lead to increased evidence on the benefits and uses of the Patent Box and, in turn, allow us to validate which changes would lead to the most positive outcomes.

**Chart 13 – Majority of manufacturers want the Patent Box Relief to be simpler to use with clearer guidelines**

% of respondents indicating what changes they would most like to see in the Patent Box




Source: Make UK/RSM Investment Monitor Survey 2025

# Conclusion

The latest Make UK/RSM *Investment Monitor* shows manufacturers are still investing despite economic challenges. A shift toward prioritising labour and skills over capital equipment reflects the urgent need to build a future engineering workforce.

While capital and digital investment remain important, skilled people are essential to unlocking their value, making this a strategy for growth, not just survival. Though investment intensity has dipped, economic confidence remains crucial to informed decision-making, and tax changes continue to influence business strategy. Our research highlights the growing role of IP protection, through tools like the Patent Box and accessing the opportunities that IP-lending will bring to manufacturers, in helping firms scale up. To support long-term industrial growth, manufacturers are clear that tax reliefs must be both effective and easy to access. In the future, policymakers should also explore expanding the use of tax reliefs to support other types of investment, such as investment in skills.

# Recommendations

| Short-term | Policy | Description |
|---|---|---|
| **Capital Allowances** | Make it easier for manufacturers to claim relief on software investments to accelerate industrial digitalisation. | Whilst it is already possible to make claims on software in the Annual Investment Allowance (AIA) / Full Expensing (FE), many manufacturers remain unaware of the conditions for its application. For this reason, 62% believe this change would make a material difference to UK investment. |
| | Expand full expensing capital allowance to allow for claims against leased equipment. | Though a small proportion of manufacturers access equipment through leasing (approximately 14%), expanding FE will improve the flexibility of the capital allowances regime and drive further take up of plant and machinery leasing. Therefore, businesses will be able to make more efficient decisions in investment. This is particularly pertinent to encouraging investment in new technologies. |
| **R&D Tax Credits** | Expand R&D tax credits to include capital equipment investments in claims if those purchases were made for R&D projects. | In manufacturing, certain R&D projects may require additional purchases that go beyond the traditional list of qualifiable expenditure, such as buying bespoke equipment for research and testing purposes. These costs can be significant and should be considered for inclusion in claims where relevant. |
| | Simplify the process by introducing clearer guidance for claims/ and make use of digital technologies to speed up claims. | It has become more challenging for SMEs to engage with the R&D tax credits system due to the additional layers of checks required for claims. For example, the Additional Information Form (AIF) has added a significant time cost to smaller business that lack the resources to meet additional bureaucratic needs. |
| **Patent Box** | Simplify the claims process and create clearer guidelines to demonstrate how to attribute specific revenues to a patent. | Reducing administrative burdens, such as implementing a digital first approach to applications, introducing standardised templates or simplifying the nexus fraction can improve business engagement with the Patent Box. In addition, more investment is required to improve general awareness of the system, which can lead to an increase in businesses acquiring IP on their innovations. |
| **IP Finance** | Deploy Regulatory Sandboxes to allow lenders to experiment with how best to make use of IP-based lending products to benefit IP rich businesses. | A regulatory sandbox could consider allowing banks to gain capital relief against agreed SME IP lending. Using BBB/IPO data it is estimate that Probability of Defaults (PDs) can be reduced when charging a fixed rate for valued IP held as collateral. This opportunity will incentivise banks to lend against IP, and direct funding to the IS-8's which are known to be "IP-rich" and connecting to the Patent Box will encourage businesses to secure IP onto their innovations. |

| Long-term | Policy | Description |
|---|---|---|
| **Build a world leading tax relief regime that complements business investment and innovation ambitions** | Make the UK a **top five nation** in the OECD for capital cost recovery by 2035. This requires a continuous review of existing tax reliefs to ensure they remain competitive internationally. | The UK currently stands at 15th best in the OECD for its capital cost recovery scheme (according to the Tax Foundation). To the make the UK an attractive place to invest we must increase our position on this league table. |
| **Become a leading nation for investment intensity, exceeding the OECD average of the last decade** | Alongside a supportive tax incentive system, leveraging the Industrial Strategy to accelerate private sector investment overtime will be key. Post 2035, we must target beating the OECD average for investment intensity consistently. | Increase the UK's average total investment as a share of GDP in the last decade (17%) to match the OECD average (22%) by 2035. **If we target a 0.5% increase in investment intensity annually starting from 2026, this could increase total investment in the UK economy by ~£670 billion by 2035.** This would also mean that the UK manufacturing sector would contribute ~£43.6 billion in that time. |

# Viewpoint

The manufacturing sector remains crucial to the UK's future prosperity, serving as a catalyst for innovation and investment, and fuelled by world-leading universities. It employs over 2.6 million people in skilled roles that earn above-average wages, while benefitting from nearly half of all research and development activity.

By Mike Thornton, Head of Manufacturing, RSM UK

Despite a challenging past year, the sector is showing signs of cautious optimism. While overall investment intensity has softened, the strategic intent behind where and how manufacturers choose to invest is clearer than ever.

## Where is manufacturing headed?

This year's Investment Monitor reveals a sector focused on transformation. Labour and skills top the list of priorities, particularly for production staff, followed closely by plant and machinery and digital technologies. The sector is preparing for a more competitive, digitally enabled future.

Yet the data also points to underlying caution. Investment in plant and machinery has dropped to its lowest level since 2017, with average investment intensity falling from 8.1% to 6.8% of turnover. Reassuringly, research and development spending has remained relatively stable, dipping slightly from 6.5% to 6.2%. These figures suggest manufacturers are becoming more selective in their investments, balancing ambition with risk.

Confidence in domestic demand remains the strongest investment motivator. Encouragingly, a third of manufacturers say they will increase investment as a result of the government's industrial strategy. This is a rare and welcome sign that long-term policy direction is beginning to influence business behaviour. Sustainability, data, AI and manufacturing capacity are emerging as key areas of focus.

## Tax policy remains crucial

Tax reliefs remain of paramount importance. Nearly 40% of respondents say they are a key consideration in investment decisions, while more than 80% take them into account to some degree. Many manufacturers continue to enjoy the current regime for capital allowances and research and development expenditure, but the relatively low use of the Patent Box regime is noteworthy.

One recurring theme that manufacturers consistently call for is simplification, as administrative burden and policy changes are barriers to investment. There is a clear opportunity here. If the UK is serious about improving productivity and driving innovation, the tax environment must support that ambition.

Streamlining the claims process and aligning incentives with business needs will be critical. Similarly, exploring up-to-date approaches to funding IP-backed innovation through public and private partnerships could help accelerate more manufacturers from the ideas phase to commercial success.

## Future-proofing the sector

For manufacturers, investment decisions are no longer just about cost or compliance. They are about building resilience, unlocking productivity and preparing for a low-carbon, high-tech future. The appetite to invest is there – what matters now is creating the right conditions to make it happen.

As a sector, we must continue to push for the right policy environment – one that rewards innovation, supports skills development and makes it easier to invest with confidence. In turn, this should help to stimulate investment and, most importantly, boost productivity.

## About


Make UK is backing manufacturing – helping our sector to engineer a digital, global and green future. From the First Industrial Revolution to the emergence of the Fourth, the manufacturing sector has been the UK's economic engine and the world's workshop. The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world's biggest challenges. Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward-thinking, bold and versatile sector, manufacturers are engineering their own future.

**www.makeuk.org**
**@MakeUKCampaigns**
**#BackingManufacturing**

For more information, please contact:

**Fhaheen Khan**
Senior Economist
Make UK
FKhan@makeuk.org

**James Brougham**
Senior Economist
Make UK
JBrougham@makeuk.org

**Lucy Adams**
Policy Adviser - Electrify Industry and Sector Specialisms
Make UK
LAdams@makeuk.org

RSM UK is a leading audit, tax and consulting firm to the middle market with 5,420 partners and staff operating from 31 locations throughout the UK. For the year ending 31 March 2024, RSM generated revenues in excess of £543m. RSM UK is a member firm of RSM International - the sixth largest network of assurance, tax and consulting firms globally. The network spans more than 120 countries, over 900 offices and more than 65,000 people, with global revenues of $10 billion (US).

As an integrated team, they share skills, insight and resources, as well as a client-centric, collaborative approach that's based on a deep understanding of clients' businesses. This is how they empower their clients to move forward with confidence and realise their full potential.

Manufacturing is one of RSM's key sectors, providing services to more than 1,460 manufacturing businesses each year. Their experience in the sector has been built up over many years by serving the needs of their manufacturing clients and providing proactive solutions to their compliance and business advisory requirements.

RSM understands the complexity of the demands the industry is facing, whether it's managing supply chain disruption, productivity challenges, labour shortages, environmental pressures, or making investments in digital technologies. RSM also focuses on specific sub-sectors within the manufacturing industry to improve their service to clients. These include aerospace and defence, automotive, and food and drink. They have national sub-sector groups that regularly provide insights and events for these parts of the manufacturing sector.

Combining their industry knowledge, deep resources and personalised service, they offer solutions to help their clients achieve their objectives.

For further information, please visit the RSM website or opt in for their manufacturing mailings.

To speak with RSM about the challenges and opportunities that your manufacturing business is currently facing, please contact:

**Mike Thornton**
Head of Manufacturing, RSM UK
+44 7725 258094
Mike.Thornton@rsmuk.com

**Lorna Claridge**
Marketing Executive, RSM UK
+44 115 964 4562
Lorna.Claridge@rsmuk.com





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