

RESEARCH AND DEVELOPMENT TAX RELIEF GROUP

R&D Tax Relief

Simon Jones & David O’Keeffe

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TAX

Innovation in the UK

- In 2003 expenditure on all R&D was 1.86% of GDP¹
- Out of the G7 countries, Britain is ranked 6th in R&D expenditure²
- Target R&D expenditure by 2014 is 2.5% of GDP¹
- How does the Government encourage increased expenditure?

Source: ¹The ten year Science and Innovation Investment Framework Annual Report 2005

²OECD October 2005

R&D Tax Relief – The Rules

SME Scheme	
Categorisation	<ul style="list-style-type: none"> • Less than 250 employees; • Turnover = e40 (50)m or balance sheet total = e27 (43)m (post 1 Jan 2005); and • Partner & linked enterprises
Commencement	1 April 2000
IP ownership	Must vest with company
R&D contracted in	Relief generally not available – may be able to claim large company relief for AP's after 8 April 2003
R&D contracted out	Relief generally available
Subsidies / grants against expenditure	Reduces claim

R&D Tax Relief – Eligible Expenditure

1. Staff costs	✓
2. Consumable stores	✓
3. Subcontract costs	✓
Finance Act 2003 Changes	
1. Externally provided workers (65% or “look through”)	✓
2. Benefits in kind	✓
Finance Act 2004 Changes	
1. Materials consumed or transformed	✓
2. Software costs	✓
3. Utilities (Water, fuel and power)	✓
4. Benefits in kind	X
Finance Act 2006 Changes	
1. Clinical Trials Volunteers	✓



Identifying R&D

Everyone's first thought?



Definition of R&D for Tax Purposes

Revised DTI Guidelines - 5 March 2004

Para 3: “R&D for tax purposes takes place when a project seeks to achieve an advance in science or technology.”

Para 4: “The activities which directly contribute to achieving this advance in science or technology through the resolution of scientific or technological uncertainty...”

Scientific or Technological Uncertainty

“...knowledge of whether something is scientifically possible or technologically feasible, or how to achieve it in practice, is not readily available or deducible by a competent professional...”

“Turning something...scientifically feasible, into a cost effective, reliable and reproducible...”

- Available off-the-shelf?
- Uses common knowledge?
- Readily deducible?
- Already feasible?

Who conducts R&D?

- ***Any* company can conduct R&D for tax purposes**
- **Qualifying R&D expenditure is not limited to the R&D department**

Can You Benefit?

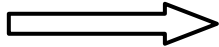
- Do you employ technical people?
- Are you, or will you be, developing new or improved:
 - Products
 - Processes
 - Materials
 - Knowledge
- Are you carrying the financial risk of the R&D?



IF YES, YOU COULD BE ELIGIBLE FOR R&D TAX RELIEF

R&D Tax Relief – Time Claim Limits

2006 Budget

Reduction in the time period for claiming R&D tax relief from:
6 years  2 years

Effective for APE on or after 31 March 2006

Transitional rules apply for earlier periods:

Earlier of:

- Six years after the end of the relevant accounting period; and
- 31 March 2008

Summary

R&D for Tax Purposes

1. **Advance sought in science or technology**
 - New or appreciably improved – addition of knowledge to industry
2. **Resolution of scientific or technological uncertainty**
 - Technical challenges – not readily deducible

Time Limits

After 31 March 2008 claims can only be made for the last 2 accounting periods.

Contacts



Simon Jones

Senior Partner – KPMG Cardiff

+44 (0) 292 046 8196

simon.jones@kpmg.co.uk



David O'Keeffe

Partner – KPMG R&D Tax Relief Group

+ 44 (0) 207 694 4170

david.okeeffe@kpmg.co.uk