

# R&D tax relief claims could significantly increase



## Expenditure on indirect qualifying activities can be included within Research and Development (R&D) claims

Following recent consultation, HM Revenue & Customs (HMRC) has accepted that qualifying indirect activities (which are activities which form part of an R&D project, but do not directly contribute to the resolution of the scientific or technological uncertainty) can be included in a company's R&D claim. Final guidance on how claims will be made is still under consultation.

This is a much welcomed change and for many companies carrying out R&D this will increase the level of their R&D tax relief claims. Many companies could benefit from a cash tax saving either by way of a tax refund from HMRC or additional small and medium sized enterprise tax credits.

## What are qualifying indirect activities?

Qualifying indirect activities are defined by the Department of Trade and Industry Guidelines (2004) as activities which form part of a project but do not directly contribute to the resolution of the scientific or technological uncertainty and include:

- scientific and technical information services, which are conducted for the purpose of R&D support, such as the preparation of the original report of R&D findings;
- indirect supporting activities such as maintenance, security, administration and clerical activities, and finance and personnel activities, which are undertaken for R&D;
- ancillary activities essential to the undertaking of R&D, e.g. taking on and paying staff, leasing laboratories and maintaining research and development equipment including computers used for R&D purposes;

- training required to directly support an R&D project;
- research by students and researchers carried out at universities;
- research (including related data collection) to devise new scientific or technological testing, survey, or sampling methods, where this research is not R&D in its own right; and
- feasibility studies to inform the strategic direction of a specific R&D activity.

It is important to note that whilst the activity base has increased as outlined above, the types of qualifying expenditure remain the same. Therefore, the cost relating to the above activities must fall within one of the qualifying categories as stated under the legislation i.e. staff costs, consumables or subcontracted R&D. For example, the lease cost in relation to a laboratory does not qualify, but the staff cost in relation to administering the laboratory lease may.

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### What you should be doing now?

Companies can make or amend R&D claims within two years of the end of the accounting period. Companies should consider making or amending claims still within the time limit to include expenditure on indirect qualifying activities. For example a company with a 31 December year end is still within the deadline to amend R&D claims made for the year ended 31 December 2007.

Many companies could benefit from significant cash tax savings either by way of tax refunds or cash tax credits.

### Contacts

PricewaterhouseCoopers (PwC) advisers have extensive experience in supporting R&D claims. For more information please contact your local PwC R&D tax adviser or one of the individuals in your area listed below:

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Design Services 24273 (10/09).