

CORPORATION TAX ACT 2009

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 13: Additional relief for expenditure on research and development

Overview

Chapter 4: Relief for SMEs: subsidised and capped expenditure on R&D

Overview

2781. This Chapter allows small or medium-sized enterprises to claim relief for expenditure on research and development that is subsidised on the same basis as provided for large companies (see Chapter 5 of this Part). It is based on Part 2A of Schedule 12 to FA 2002.
2782. The Chapter applies only to expenditure incurred on or after 1 April 2002. See paragraph 20(1) of Schedule 12 to FA 2002. Schedule 2 (transitionals and savings) preserves this commencement rule (which, for the purposes of this Act, is relevant only to pre-trading expenditure).

Section 1068: Additional deduction in calculating profits of trade

2783. This section allows a small or medium-sized enterprise to claim relief for expenditure on research and development that is subsidised. It is based on paragraph 11 of Schedule 12 to FA 2002.
2784. As with relief under Chapters 2 and 3, relief under Chapter 4 is given as an additional deduction for expenditure that is already deductible in calculating trade profits (see *subsections (4) and (7)*). The amount of the deduction is increased by 30% (see *subsection (8)*).
2785. This section makes clear that relief is given only to companies liable to corporation tax. See *Change 77* in Annex 1 and the commentary on section 1039 (overview of Part).

Section 1069: R&D threshold

2786. This section gives the minimum amount of qualifying expenditure the company must incur in an accounting period to claim relief under this Chapter. It is based on paragraph 10A of Schedule 12 to FA 2002.

Section 1070: Qualifying Chapter 4 expenditure

2787. This section identifies the two categories of expenditure that qualify for relief under this Chapter. It is based on paragraph 10B of Schedule 12 to FA 2002.
2788. This Act takes a different approach to identifying the qualifying conditions from that taken in the source legislation. Paragraph 10B of Schedule 12 to FA 2002 defines what it calls “qualifying additional SME expenditure” by providing first that the expenditure would qualify for relief under Part 1 of Schedule 12 to FA 2002. It then superimposes

the qualifying conditions in Schedule 20 to FA 2000. But it removes the condition that the expenditure must not be subsidised.

2789. In this Chapter the qualifying conditions are set out in full to avoid the reader having to make these modifications.

Section 1071: Subsidised qualifying expenditure on in-house direct R&D

2790. This section defines what is meant by “subsidised qualifying expenditure on in-house direct research and development”. It is based on paragraph 10B of Schedule 12 to FA 2002.
2791. The section does not rewrite the condition in paragraph 10B(c) of Schedule 12 to FA 2002 that the expenditure “is not qualifying sub-contracted R&D expenditure for the purposes of this Schedule”. It is unnecessary.
2792. To qualify under Part 2A of Schedule 12 to FA 2002 the expenditure must qualify for relief under Schedule 20 to FA 2000 but for the fact it is subsidised. Expenditure would not qualify under Schedule 20 to FA 2000 if it were paid in respect of activities sub-contracted to the company. Condition E in *subsection (6)*, which reproduces condition D in section 1052, is all that is required.
2793. This section does not reproduce the condition that the expenditure must not be capital in nature. This condition is unnecessary because section 53 in Part 3, the trading income Part, already prohibits a deduction for capital expenditure.

Section 1072: Subsidised qualifying expenditure on contracted out R&D

2794. This section defines what is meant by “subsidised qualifying expenditure on contracted out research and development”. It is based on paragraph 10B of Schedule 12 to FA 2002.
2795. The section does not allow a small or medium-sized enterprise to claim relief for a subsidised contribution to independent research and development. A large company can claim relief for such expenditure (see section 1079). But a small or medium-sized enterprise cannot and therefore the condition in paragraph 10B(b) of Schedule 12 to FA 2002 would not be satisfied.
2796. This section does not reproduce the condition that the expenditure must not be capital in nature. This condition is unnecessary because section 53 in Part 3 (trading income) already prohibits a deduction for capital expenditure.

Section 1073: Capped R&D expenditure

2797. This section defines what is meant by “capped R&D expenditure”. It is based on paragraph 10C of Schedule 12 to FA 2002.