

Research and Development Tax Relief

Pharmaceutical and biotechnology companies

TAX

Research and Development (R&D) can be a speculative cost that can have a significant impact on the profitability of a business. Companies incurring expenditure on qualifying R&D are eligible to claim the tax benefits introduced in the UK to encourage science, engineering and innovation.

What is R&D in tax terms?

In the eyes of the UK's Department of Trade and Industry, R&D has a much wider definition than you might think and can cover areas such as:

- creative work undertaken to help increase the overall collective state of knowledge, such as the development of a new drug;
- work seeking a scientific or technological advance that breaks new ground or aims to achieve an appreciable improvement over existing technologies such as manufacturing process improvement.

You might be eligible for (more) tax benefits on R&D and not realise it!

For the purposes of the reliefs, companies are categorised as either large or small and medium-sized enterprises. Small and medium-sized enterprises (SMEs) are broadly independent companies with less than 250 employees and either a turnover not exceeding €50 million (about £34 million), or a balance sheet total not exceeding €43 million (about £29 million).

Reliefs available

There are three forms of tax benefit you may be eligible for:

- R&D Capital Allowances are available to companies who incur qualifying capital expenditure (which could include buildings but not land) and are given at the rate of 100 percent. This means for every £100 spent, the company is entitled to £100 tax relief in the year of expenditure.
- R&D Tax Relief is available at a 'super deduction' rate of 125 percent for large companies which incur revenue expenditure on R&D. This means for every £100 spent, the company is entitled to £125 tax relief in the year of expenditure, equivalent to a cash benefit of £7.50 for companies paying 30 percent corporate tax.

Typical qualifying R&D costs include staff costs and consumable or transformable materials (which now include software costs and utilities). For SMEs the R&D Tax Relief is available at a 'super deduction' rate of 150 percent for similar qualifying expenditure. In addition SMEs may be able to claim the relief for some sub-contracted costs. Loss making SMEs may even surrender their R&D related costs for a 16 percent cash payment. There is a de-minimis spend of £10,000 per annum before relief can be claimed.

- Vaccine Research Relief (VRR) is available at an additional 'super deduction' rate of 50 percent on top of the other reliefs for both large companies or SMEs. Loss making SMEs may also surrender this additional relief for a 16 percent cash payment. VRR is limited to qualifying R&D on vaccines and medicines for the prevention and treatment of tuberculosis, malaria and AIDS (clades A, C, D and E only) and vaccines for the prevention of infection by HIV. The de-minimis qualifying spend is again £10,000 per annum.

KPMG in the UK's R&D Tax Relief group

KPMG's multidisciplinary approach and considerable practical experience can help to determine the qualification of potential R&D expenditure, to potentially increase the tax benefits and that aims to save you money. By using a team of professionals with a variety of backgrounds including engineering, science, tax and accounting, KPMG can expeditiously review your company's R&D activities to determine eligibility and potentially increase the tax benefit.

Our approach

- **Technical meetings:** Our engineers and scientists meet your technical staff to help interpret and identify potentially qualifying R&D expenditure.
- **Technical report:** Using the information collected at the technical meetings, we produce a report to form the basis of the claim for the tax relief.
- **Cost identification and extraction:** We can work with your finance team to help identify and extract the eligible expenditure for the qualifying projects to support the claim.
- **Claim submission and negotiation:** The above information is collated into the claim document for submission to HM Revenue & Customs (HMRC) followed by negotiation with HMRC on your behalf to try to ensure an acceptable agreement.
- **Going forward:** We can establish procedures for ongoing review of R&D spend.

In delivering these potential R&D tax benefits we will aim to limit the time commitment from your staff.

Potential benefits

- You can establish whether you are claiming your full entitlement.
- You can potentially accelerate the tax benefit on capital assets (by several years when compared to other allowances).

- You can increase the cash benefit of reduced tax liabilities.
- You can reduce your net cost of R&D conducted in the UK.
- KPMG's approach can assist in promoting preferred practice in your company by helping to identify process inefficiencies whilst helping to increase your company's knowledge about, and ability to deal with, R&D Tax Relief.

The R&D Tax Relief group in action

Recently a UK subsidiary of a global pharmaceutical group asked KPMG in the UK to undertake a project to identify the qualifying R&D expenditure and to prepare a claim for the tax relief. In the feasibility study, KPMG identified in excess of £9 million of qualifying expenditure over two years producing a cash benefit of £700,000. The feasibility study formed the basis of the claim. These tax benefits could help to secure the long-term future of the company's R&D facilities in the UK by attracting future R&D projects from within the group.

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