

Status: Point in time view as at 10/07/2003.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2002, Part 1. (See end of Document for details)

SCHEDULES

SCHEDULE 12

TAX RELIEF FOR EXPENDITURE ON RESEARCH AND DEVELOPMENT

PART 1

ENTITLEMENT TO RELIEF FOR R&D EXPENDITURE: LARGE COMPANIES

Entitlement to relief under this Part

- 1 (1) A company (in this Part referred to as “the company”) is entitled to tax relief under this Part for an accounting period if—
- (a) it is a large company throughout that period, and
 - (b) its qualifying R&D expenditure for that period is not less than—
 - (i) [^{F1}£10,000], if the accounting period is a period of 12 months, or
 - (ii) such amount as bears to [^{F2}£10,000] the same proportion as the accounting period bears to 12 months.
- (2) For the purposes of this paragraph the company’s qualifying R&D expenditure is “for an accounting period” if it is deductible in computing for tax purposes the profits for that period of a trade carried on by the company (including expenditure that is so deductible by virtue of section 401 of the Taxes Act 1988).

Textual Amendments

- F1** Word in Sch. 12 para. 1(1)(b)(i) substituted (with effect in accordance with s. 168(4)(d)(i) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 31 para. 9\(2\)](#)
- F2** Word in Sch. 12 para. 1(1)(b)(ii) substituted (with effect in accordance with s. 168(4)(d)(i) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 31 para. 9\(2\)](#)

Meaning of “large company” and “small or medium-sized enterprise”

- 2 (1) For the purposes of this Schedule—
- (a) “large company” means a company that does not qualify as a small or medium-sized enterprise; and
 - (b) “small or medium-sized enterprise” means a small or medium-sized enterprise as defined in Commission Recommendation 96/280/EC of 3rd April 1996.
- (2) The Treasury may by order amend sub-paragraph (1)(b) so as to substitute another definition of “small or medium-sized enterprise” for the definition that is for the time being effective for the purposes of this Schedule.

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Qualifying R&D expenditure

- 3 For the purposes of this Schedule the company’s “qualifying R&D expenditure” is—
- (a) its qualifying expenditure on direct research and development (see paragraph 4),
 - (b) its qualifying expenditure on sub-contracted research and development (see paragraph 5), and
 - (c) its qualifying expenditure on contributions to independent research and development (see paragraph 6).

Qualifying expenditure on direct research and development

- 4 (1) The company’s qualifying expenditure on direct research and development is expenditure incurred by it where the following conditions are satisfied.
- (2) The first condition is that the expenditure is incurred on research and development directly undertaken by the company.
- [^{F3}(3) The second condition is that the expenditure—
- (a) is incurred on staffing costs,
 - (b) is incurred on consumable stores, or
 - (c) is qualifying expenditure on externally provided workers.]

(4) The third condition is that the expenditure is attributable to relevant research and development in relation to the company.

(5) The fourth condition is that the expenditure is not of a capital nature.

(6) The fifth condition is that, if the expenditure is incurred in carrying on activities contracted out to the company, they are contracted out—

 - (a) by a large company, or
 - (b) by any person otherwise than in the course of a trade, profession or vocation the profits of which are chargeable to tax under Case I or II of Schedule D.

Textual Amendments

- F3** Sch. 12 para. 4(3) substituted (with effect in accordance with s. 168(3)(b) of the amending Act) by Finance Act 2003 (c. 14), **Sch. 31 para. 10**

Expenditure on research and development directly undertaken on company’s behalf

- 5 (1) The company’s qualifying expenditure on sub-contracted research and development is expenditure incurred by it where the following conditions are satisfied.
- (2) The first condition is that the expenditure is incurred in making payments to—
- (a) a qualifying body,
 - (b) an individual, or
 - (c) a partnership, each member of which is an individual,
- in respect of research and development contracted out by the company to the body, individual or partnership concerned (“the sub-contracted R&D”).

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- (3) The second condition is that the sub-contracted research and development is directly undertaken on behalf of the company by the body, individual or partnership concerned.
- (4) The third condition is that the expenditure is attributable to relevant research and development in relation to the company.
- (5) The fourth condition is that the expenditure is not of a capital nature.
- (6) The fifth condition is that, if the sub-contracted R&D is itself contracted out to the company, it is contracted out—
 - (a) by a large company, or
 - (b) by any person otherwise than in the course of a trade, profession or vocation the profits of which are chargeable to tax under Case I or II of Schedule D.

Qualifying expenditure on contributions to independent research and development

- 6 (1) The company's qualifying expenditure on contributions to independent research and development is expenditure incurred by it where the following conditions are satisfied.
 - (2) The first condition is that the expenditure is incurred in making payments to—
 - (a) a qualifying body,
 - (b) an individual, or
 - (c) a partnership, each member of which is an individual,for the purpose of funding research and development carried on by the body, individual or partnership concerned ("the funded R&D").
 - (3) The second condition is that the funded R&D is relevant research and development in relation to the company.
 - (4) The third condition is that the funded R&D is not contracted out to the qualifying body, individual or partnership concerned by another person.
 - (5) The fourth condition is that—
 - (a) if the payment is made to an individual, the company is not connected with the individual when the payment is made, and
 - (b) if the payment is made to a partnership (other than a qualifying body), the company is not connected with any member of the partnership when the payment is made.

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