

FINANCE ACT 2015

EXPLANATORY NOTES

INTRODUCTION

Section 27: Amount of Relief for Expenditure on Research and Development

Summary

1. This section amends Part 13 of the Corporation Tax Act (CTA) 2009 to increase both the additional deduction for research and development (R&D) costs incurred by a company which is a small or medium enterprise (SME) and the rate of the R&D Expenditure Credit (RDEC) for large companies.

Details of the Section

2. The section increases the additional deduction for SMEs in calculating profits from 125% to 130%. This, combined with the normal deduction for such expenditure, gives an increased total of 230%. Losses arising from expenditure on R&D can be surrendered by a loss making company in return for a cash payment at a rate of 14.5% currently giving relief of 32.63% on the actual expenditure. After the increase in the additional deduction rate, the equivalent level of benefit will be 33.35%. The RDEC rate increases from 10% to 11%.
3. Both changes apply to expenditure incurred on or after 1 April 2015.

Background Note

4. For SME companies additional relief for expenditure on R&D was introduced in 2000. The relief currently gives an additional deduction from profits at a rate of 125% of the qualifying expenditure. This combined with the normal deduction for such expenditure gives a total deduction of 225%.
5. The rate of the additional deduction is to be increased from 125% to 130% for expenditure incurred on or after 1 April 2015 once the Treasury make an order.
6. The RDEC was introduced for companies undertaking qualifying activity and incurring qualifying expenditure on 1 April 2013. It was introduced as a standalone credit to be brought into account as a receipt in calculating profits. The current general rate is set as 10% of qualifying R&D expenditure.
7. For profit making companies the credit discharges corporation tax liability that the company would have to pay. Companies with no corporation tax liability will benefit from the RDEC either through a cash payment or a reduction of tax or other duties due. The rate of the R&D expenditure credit is to be increased from 10% to 11% for expenditure incurred on or after 1 April 2015.