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*Status: Point in time view as at 23/01/2003.*

*Changes to legislation: There are currently no known outstanding effects for the Finance Act 2002, Part 5. (See end of Document for details)*

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## SCHEDULES

### SCHEDULE 12

#### TAX RELIEF FOR EXPENDITURE ON RESEARCH AND DEVELOPMENT

##### PART 5

##### SUPPLEMENTARY PROVISIONS

###### *Research and development expenditure of group companies*

- 14 (1) Sub-paragraph (2) applies where—
- (a) a company (“A”) incurs expenditure on making a payment to another company (“B”) in respect of activities contracted out by A to B,
  - (b) the expenditure incurred on the payment is research and development expenditure of A, and
  - (c) A and B are members of the same group at the time the payment is made.
- (2) For the purposes of this Schedule —
- (a) any of the activities contracted out by A to B and directly undertaken by B shall be treated (to the extent that it would not otherwise be the case) as research and development directly undertaken by B, and
  - (b) where B makes a payment to a third party (“C”) in respect of any of those activities that are contracted out by B to C and directly undertaken by C, those activities shall be treated (to the extent that it would not otherwise be the case) as research and development contracted out by B to C.
- (3) For the purposes of this paragraph A and B are members of the same group if they are members of the same group of companies for the purposes of Chapter 4 of Part 10 of the Taxes Act 1988 (group relief).

###### *Refunds of contributions to independent research and development etc*

- 15 (1) This paragraph applies where a company receives a payment refunding the whole or any part of—
- (a) any qualifying expenditure on sub-contracted research and development (see paragraph 5),
  - (b) any qualifying expenditure on contributions to independent research and development (see paragraph 6), or
  - (c) any expenditure which is qualifying sub-contracted R&D expenditure by virtue of paragraph 10,
- in respect of which it obtains relief under this Schedule.
- (2) The appropriate amount shall be treated as income of the company chargeable to tax under Case I of Schedule D for the accounting period in which the payment is made.

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- (3) Where, by virtue of paragraph 13(3) (profits of life assurance business chargeable to tax under Case VI of Schedule D), the relief obtained in respect of the contribution or expenditure concerned is a deduction in computing for tax purposes the profits of a part of the life assurance business of the company—
- (a) sub-paragraph (2) does not apply, and
  - (b) the appropriate amount shall be treated as income referable to that part which is chargeable to tax under Case VI of Schedule D for the accounting period in which the payment is made.
- (4) For this purpose “the appropriate amount” means 25% of the payment.

*Artificially inflated claims for deduction*

- 16 (1) To the extent that a transaction is attributable to arrangements entered into wholly or mainly for a disqualifying purpose, it shall be disregarded in determining for an accounting period the amount of any relief to which a company is entitled under this Schedule.
- (2) Arrangements are entered into wholly or mainly for a “disqualifying purpose” if their main object, or one of their main objects, is to enable a company to obtain relief under this Schedule to which it would not otherwise be entitled or of a greater amount than that to which it would otherwise be entitled.
- (3) In this paragraph “arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable.

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