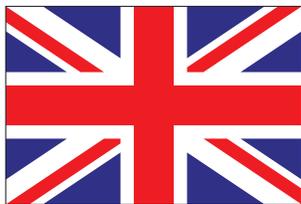


# United Kingdom



## Background

The headline corporate tax rate is 20%, reduced from 21%, effective as of 1 April 2015.

R&D occurs when a project seeks to achieve an advance in science or technology through the resolution of scientific or technological uncertainties. R&D also includes certain qualifying indirect activities as part of a project.

## Nature of incentives

The United Kingdom offers super deductions and credits that vary depending on the size of the taxpayer. (i) a super deduction scheme for companies that fall within the definition of a SME and (ii) all other companies (large companies) can elect an R&D credit or a super deduction. Generally, the criteria for qualification as a small and medium-sized company (SME) follows the EU definition except that the criteria are all doubled. The company must have fewer than 500 employees and either gross revenues of less than EUR 100M or gross assets of less than EUR 86M. Affiliated companies generally are considered in determining if a company qualifies as an SME.

SMEs qualify for the following expenditure-based tax incentives:

- 230% super deduction (225% before 1 April 2015; 200% before 1 April 2012).
- Cash credits are available for SMEs in a loss position, up to 33.35% of the qualifying expenditure (32.63% before 1 April 2015, and 24.75% before 1 April 2014).

Large companies qualify for the following expenditure-based tax incentives:

- Until 31 March 2016, a 130% super deduction is available; or
- From 1 April 2013, large companies can elect to claim a taxable credit of 10%, increased to 11% from 1 April 2015. From 1 April 2016, only the taxable credit will be available.

Cash credits are available for large companies under the R&D expenditure credit scheme if the claimant company does not have corporate tax liabilities.

Unused benefits may be carried forward to utilize in future periods.

Currently, there are no caps on R&D deductions for large companies. However, there is a cap that restricts the amount of tax benefit available to SMEs, over and above the benefit that would have been available had the company not been an SME, to EUR 7.5M per R&D project.

## R&D incentives in the UK now include super deductions, refundable credits, and a patent box.

Capital expenditure is excluded from the volume-based incentives, but a full deduction for capital costs incurred for R&D can be claimed in the year the expenditure is incurred, rather than being depreciated for tax purposes in accordance with the usual rules. An election may, however, be made for the company to claim the volume-based incentives on expenditure included in the balance sheet cost of intangible assets as revenue for tax purposes if certain criteria are met.

A patent box regime enables companies to apply a lower rate of corporation tax to profits earned after 1 April 2013 from its patented inventions and certain other innovations. The relief has been phased in from 1 April 2013 and applies a 10% rate of corporation tax to profits generated from the patents.

## Eligible industries and qualifying costs

The type of industry has no bearing on the availability of the incentive. Qualification is based solely upon the nature of the activities.

Companies may claim the incentive for their expenditure on the following cost categories:

- Employing staff who are directly and actively engaged in carrying out R&D.
- SMEs can claim 65% of R&D-related subcontract costs. Large companies can claim subcontract costs only if they are paid to a university, health authority, charity, scientific research organization, individual, or a partnership of individuals.
- Payments to volunteers for participating in clinical trials.
- Expenditure on land, patents and patent protection are specifically excluded.

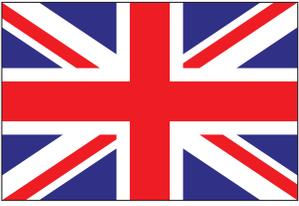
Large companies can claim the relief on costs associated with work that is contracted to them as long as it was contracted by another large company or any person not subject to UK tax, e.g., UK large company performs research for a US company that is not subject to UK tax.

SMEs cannot claim the more advantageous SME relief on costs that are subsidized or related to activities that were contracted to them, although they may be able to make a claim under the less generous large company schemes.

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# United Kingdom (cont.)



## IP and jurisdictional restrictions

There is no IP ownership requirement under the UK R&D schemes.

## Introduction of the new R&D Expenditure Credit Scheme

The R&D Expenditure Credit Scheme was introduced for R&D claims under the large company scheme for expenditure incurred on or after 1 April 2013.

The credit is available alongside the existing super deduction scheme until April 2016 when the new credit will become mandatory. Until April 2016, companies may elect for either scheme, but once a company has elected to claim under the new credit scheme, the election is irrevocable. The credit retains the current qualifying cost categories, but provides a higher benefit level.

A key aspect of the credit scheme is that a cash payment can be received by companies that are not paying corporation tax, subject to a cap based on an amount equal to all of the payroll taxes and social security payable due on the salary costs of the staff included in the claim, as well as the eligible proportion of payroll taxes and social security taxes payable by a connected group company for employees included in the claim. The R&D expenditure credit is available at a rate of 11% (10% prior to 1 April 2015) and the credit is taxable. Cash payments to companies with no tax liability are paid net of tax; however the tax withheld is not lost, and may be carried forward to set against future corporation tax liability.

The new R&D credit can be accounted for like a grant, i.e., as a reduction from the qualifying expenditure, thus boosting operating profits. The current R&D expenditure scheme does not affect the benefit currently available to SMEs.

# United Kingdom

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction, credit and patent box	<ol style="list-style-type: none"> <li>130% volume-based super deduction for large companies or a 10% refundable credit (increased to 11% from 1 April 2015).</li> <li>230% volume-based super deduction for SMEs and, if the SME is in a loss position, a 33.35% refundable credit.</li> <li>A patent box regime enables companies to reduce their tax rate on income attributable to patented technology to 10%.</li> </ol>	No	<p>Unused deductions may be carried forward indefinitely to offset against future profits of the same trade, unless there is a change in ownership and a change in the nature of the trade within three years.</p> <p>All taxpayers qualify for refundable tax credits in lieu of super deductions.</p>

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Research that is supervised by UK company personnel can be performed outside the UK.	SMEs tax benefits are capped at EUR 7.5M in excess of what their deduction/credit would have been had it been a large company.	No	No