

EXPLANATORY NOTE

NEW CLAUSE 8: QUALIFYING EXPENDITURE: R&D RELIEF AND VACCINE RESEARCH RELIEF

SUMMARY

1. New Clause 8 makes changes to some of the categories of qualifying expenditure that attract relief under the Research and Development (R&D) tax relief and Vaccine Research Relief (VRR) schemes. A slightly wider definition of staffing costs will apply to both the R&D and VRR schemes. Changes to the sub-contracting rules and to the treatment of contributions to independent R&D will affect only the VRR scheme.

DETAILS OF THE CLAUSE

2. Subsection (1) provides for the amendment of Paragraph 5 of Schedule 20 to FA 2000 (R&D tax relief: staffing costs), which defines staffing costs for all of the schemes.
3. Subsection (2) inserts a new sub-paragraph (1)(ba) after subparagraph (1)(b).
4. The new sub-paragraph (ba) adds to the definition of staff costs any compulsory contributions paid by the company in respect of benefits for its directors or employees under the

social security legislation of an EEA State (other than the United Kingdom) or Switzerland.

5. Subsection (3) inserts a new sub-paragraph (1ZB) before sub-paragraph (1A). The new sub-paragraph defines the term “social security legislation” for the purposes of the new sub-paragraph (ba) described above. This means legislation relating to any of the branches of social security listed in Article 3(1) of Regulation (EC) No 833/2004 of the European Parliament and of the Council of 29 April 2004 on the co-ordination of social security systems as amended from time to time.
6. Subsection (4) provides for the amendment of Schedule 13 to FA 2002 (vaccine research relief)
7. Subsection (5) amends paragraph 2 (qualifying expenditure), inserting “or” at the end of sub-paragraph (1)(a), and removing sub-paragraph (1)(c), the “or” before it, and sub-paragraph (4). These are provisions that refer to expenditure on contributions to independent research and development. The effect is to remove relief for such contributions from VRR.
8. Subsection (6) amends paragraph 6 (qualifying expenditure on sub-contracted research and development) , removing the second sentence in sub-paragraph (1) and sub-paragraph (3). This removes the special subcontracting

treatment currently provided for expenditure on research subcontracted to a charity, a university or a scientific research organisation.

9. Subsection (7) deletes paragraph 12, which defines qualifying expenditure on contributions to independent research and development.
10. Subsection (8) removes paragraph 25, which contains provisions about refunds of qualifying expenditure on contributions to independent research and development.
11. Subsection (9) amends paragraph 3 of Schedule [8] of this Act (changes to rates of vaccine research relief) to omit sub-paragraphs (2)(e) and (3)(d). The sub-paragraphs amend paragraph 25 schedule 13 FA 2002, which is itself removed by this clause, so the amendments are no longer necessary.
12. Subsection (10) provides that the amendments made by this clause will have effect in relation to expenditure incurred on or after a day appointed by Treasury Order.
13. Subsection (11) provides that paragraph 10(4) of Schedule 13 to FA 2002, which sets a two year time limit for giving notice of election for connected persons treatment, does not apply in relation to a sub-contractor payment if the sub-contractor is a charity, university or scientific research

organisation and the notice of election is given before the end of the period of 12 months beginning with the day appointed in subsection (10) above.

14. This transitional provision allows such elections to made, in respect of payments to the three classes of sub-contractor, outside the two year period, provided this is done within a year of the commencement order for these changes.