

EXPLANATORY NOTE

CLAUSE 13: CORPORATION TAX EXEMPTION FOR ORGANISATIONS

SUMMARY

1. Clause 13 amends the corporation tax exemption for scientific research organisations to bring the definition of their qualifying object into line with the definition of research and development used for tax purposes, and removes the requirement for an organisation to seek annual approval from the Secretary of State for Trade and Industry. It also provides a power for the Treasury to make regulations specifying certain conditions upon which the exemption is conditional.
2. Before these changes, organisations could only benefit from the exemption where they had as their object, the undertaking of scientific research, which may lead to, or facilitate, an extension to any class or classes of trade. They were also required to seek annual retrospective approval of their status from the Secretary of State for Trade and Industry.

DETAILS OF THE CLAUSE

3. Subsection (1) provides for the amendment of Section 508 Income and Corporation Taxes Act (ICTA) 1988 (tax exemption for scientific research organisations).
4. Subsection (2) amends paragraph (a) of Section 508(1) to redefine the qualifying object of an “Association” within Section 508 from (the undertaking of) “scientific research” to “research and development”, and also removes the requirement for the Association’s approval by the Secretary of State for Trade and Industry for the purposes of the section.
5. Subsection (3) amends Section 508(1) to make it clear that, upon a claim to HM Revenue and Customs for exemption under that subsection, the exemption relates to the accounting period for which the claim is being made.

6. Sub-section (4) inserts two new subsections after Section 508(1) as follows:
- New subsection (1A) provides the Treasury with a power to make regulations to prescribe certain circumstances in which Section 508(1) is deemed not to be complied with.
 - New subsection (1B) provides a power for the Treasury to make regulations to specify, for the purposes of the section:
 - (a) what is, or is not, an Association for the purposes of Section 508.
 - (b) circumstances in which an association is, or is not, deemed as having the undertaking of research and development as its object.
 - (c) circumstances in which the undertaking of research and development is deemed to be, or not to be, capable of leading to or facilitating an extension of a class of trade.
 - (c) what is, or is not, a class of trade.
7. Subsection (5) replaces Section 508(3) with two new subsections as follows:
- New Section 508(3) defines the meaning of “research and development” for the purposes of Section 508(1)(a) as the meaning applying at Section 837A ICTA.
 - New Section 508(4) provides that regulations may be made under the power at subsection (3) of Section 837A, to make provision for what is, and is not, research and development for the purposes of Section 508. This provision may be additional to or different from provision otherwise made for the purposes of Section 837A.
8. Subsection (6) provides that the amendments to Section 508 are to have effect in relation to accounting periods beginning on or after a day to be appointed by a relevant Treasury Order.

BACKGROUND NOTES

9. The effect of the clause is to allow Scientific research organisations (SROs) to undertake a wider range of research and development for the benefit of their members and to de-regulate the sector by removing the requirement for organisations to seek

retrospective annual approval of their status from the Department of Trade and Industry.

10. SROs are bodies formed to undertake research for mutual exploitation by their members. As bodies corporate and unincorporated associations, they fall within the Taxes Act definition of a 'company' and would be chargeable to corporation tax but for the specific tax exemption for scientific research organisations at Section 508 ICTA1988.
11. Section 508, which originates back to 1950, applies the same exemption from tax as that available to a charity under Section 505 ICTA 1988 where the charity has applied the whole of its income to charitable purposes.
12. Currently, in order to benefit from the tax exemption at Section 508 an organisation must first be approved by the Secretary of State for Trade and Industry as an association which has as its object, the undertaking of scientific research which may lead to, or facilitate, an extension to any class or classes of trade. Currently approval has to be sought annually and retrospectively. At present nine SROs apply for annual approval under Section 508.
13. In 2003 the Government and the Social Research Council jointly commissioned research into the role of Research Technology Organisations in the UK innovation system. The research recognised the important role that SROs play in the innovation process and highlighted areas where the sector felt that Section 508 could be improved and modernised. This resulted in an announcement in the 2003 Pre Budget Report that the Government would bring forward proposals at Budget 2004 with the aim of refining the tax treatment of SROs.
14. Budget 2004 subsequently announced that changes would be introduced in the 2005 Finance Bill to:
 - modernise the tax exemption for SROs
 - align the definition of qualifying activities with the definition of research and development (R & D) used for tax purposes, and
 - reduce compliance costs by dispensing with the current DTI administered clearance system and bringing SROs fully into the corporation tax self assessment system.

EXPLANATORY NOTE

CLAUSE 14: INCOME TAX DEDUCTION FOR PAYMENTS TO ORGANISATIONS

SUMMARY

1. Clause 14 amends a provision relating to the availability of an income tax deduction for certain payments made by persons to research associations, as a consequence of the amendments to the general tax exemption for scientific research organisations introduced by Clause 13.

DETAILS OF THE CLAUSE

2. Clause 14 amends section 88 Income Tax (Trading and Other Income) Act 2005 (ITTOIA) which came into force on 6 April 2005. It is introduced as a consequence of the amendments to section 508 ICTA introduced under Clause 13.
3. Subsection (1) provides for amendments to be made to section 88 ITTOIA.
4. Subsection (2) amends the conditions for a deduction at paragraphs (a) and (b) of section 88(1) to reflect the changes to section 508 ICTA and to de-couple the two paragraphs. The previous reference to “scientific research” in paragraph (a) of section 88(1) is changed to “research and development”, reflecting the change to the qualifying object of section 508 associations introduced by subsection (2) of Clause 13. This change applies specifically to section 508 associations, whereas paragraph (b) of section 88(1) applies to payments made to certain higher education institutions, therefore the new paragraph (b) retains the reference to “scientific research” but dispenses with the cross reference “as is mentioned in paragraph (a)”.
5. The amended paragraph (a) also defines, for the purposes of allowing a deduction under the section, an association to which a relevant payment is made as being an Association which is entitled to claim tax exemption under section 508.

6. Subsection (3) deletes paragraph (a) of Section 88(4).
7. Subsection (4) amends Section 88(5) to reflect the amendment under subsection (2) by virtue of which the reference to “scientific research” in paragraph (a) of Section 88(1) is replaced with “research and development”. The amendment under subsection (4) ensures that the meaning of “scientific research related to a class of trade” given at Section 88(5) relates to paragraph (b) of Section 88(1) only.
8. Subsection (5) provides that the amendments to Section 88 ITTOIA have effect in relation to sums paid to a qualifying Association in an accounting period of that Association which begins on or after the day appointed by virtue of subsection (6) of Clause 13.

BACKGROUND NOTES

9. Section 82B ICTA currently provides for a deduction as an expense in computing profits for any payment made by a person carrying on a trade to a scientific research organisation which has as its object the undertaking of scientific research related to the class of trade to which that person belongs.
10. From 6 April 2005 the income tax deduction for persons making certain payments to scientific research associations will be available by virtue of section 88 ITTOIA 2005.
11. Scientific Research Organisations (SROs) are bodies formed to undertake research for mutual exploitation by their members. As bodies corporate and unincorporated associations, they fall within the Taxes Act definition of a ‘company’ and would be chargeable to corporation tax on their income but for the specific tax exemption for scientific research organisations at Section 508 ICTA1988.
12. In 2003 the Government and the Social Research Council jointly commissioned research into the role of Research Technology Organisations in the UK innovation system. The research recognised the important role that SROs play in the innovation process and highlighted areas where the sector felt that Section 508 could be improved and modernised. This resulted in an announcement in the 2003 Pre-Budget Report that the Government

would bring forward proposals at Budget 2004 with the aim of refining the tax treatment of SROs.

13. Budget 2004 subsequently announced that changes would be introduced in the 2005 Finance Bill to:
 - modernise the tax exemption for SROs
 - align the definition of qualifying activities with the definition of research and development (R&D) used for tax purposes
 - reduce compliance costs by dispensing with the current DTI administered clearance system and bringing SROs fully into the corporation tax self assessment system
14. The changes to section 508 ICTA 1988 announced in Budget 2004 are being introduced in Finance Bill 2005 by Clause 13.

EXPLANATORY NOTE

**CLAUSE 15: CORPORATION TAX DEDUCTION FOR
PAYMENTS TO ORGANISATIONS**

SUMMARY

1. Clause 15 amends the conditions relating to the availability of a corporation tax deduction for certain payments made by companies to research associations, as a consequence of the amendments to the general tax exemption for scientific research organisations made by Clause 13.

DETAILS OF THE CLAUSE

2. This clause amends section 82B Income and Corporation Tax 1988 (ICTA). It is introduced as a consequence of the amendments to section 508 ICTA introduced under Clause 13
3. Subsection (1) provides for amendments to be made to section 82B.
4. Subsection (2) amends paragraphs (a) and (b) of section 82B(1) to reflect the changes to section 508 ICTA and to de-couple the two paragraphs. The previous reference to “scientific research” in paragraph (a) of section 82B(1) is changed to “research and development”, reflecting the change to the qualifying object of section 508 associations introduced by subsection (2) of Clause 13. This change applies specifically to section 508 Associations, whereas paragraph (b) of section 82B(1) applies to payments made to certain higher education institutions, therefore the new paragraph (b) retains the reference to “scientific research” but dispenses with the cross reference “as is mentioned in paragraph (a)”.
5. The amended paragraph (a) also defines, for the purposes of allowing a deduction under the section, an association to which a relevant payment is made as being an Association which is entitled to claim tax exemption under section 508.

6. Subsection (3) amends Section 82B(3) to reflect the amendment under subsection (2) by virtue of which the reference to “scientific research” in paragraph (a) of Section 82B(1) is replaced with “research and development”. The amendment under subsection (3) ensures that the meaning of “scientific research related to a class of trade” given at Section 82B(3) relates to paragraph (b) of Section 82B(1) only.
7. Subsection (4) provides that the amendments to Section 82B have effect in relation to sums paid to a qualifying Association in an accounting period of that Association which begins on or after the day appointed by virtue of subsection (6) of Clause 13.

BACKGROUND NOTES

8. Section 82B ICTA currently provides for a deduction as an expense in computing profits for any payment made by a person carrying on a trade to a scientific research organisation which has as its object the undertaking of scientific research related to the class of trade to which that person belongs.
9. From 6 April 2005 the income tax deduction for persons making certain payments to scientific research organisations will be available by virtue of section 88 ITTOIA 2005.
10. Scientific research organisations (SROs) are bodies formed to undertake research for mutual exploitation by their members. As bodies corporate and unincorporated associations, they fall within the Taxes Act definition of a ‘company’ and would be chargeable to corporation tax on their income but for the specific tax exemption for scientific research organisations at Section 508 ICTA1988.
11. In 2003 the Government and the Social Research Council jointly commissioned research into the role of Research Technology Organisations in the UK innovation system. The research recognised the important role that SROs play in the innovation process and highlighted areas where the sector felt that Section 508 could be improved and modernised. This resulted in an announcement in the 2003 Pre-Budget Report that the Government would bring forward proposals at Budget 2004 with the aim of refining the tax treatment of SROs.

12. Budget 2004 subsequently announced that changes would be introduced in the 2005 Finance Bill to:
 - modernise the tax exemption for SROs
 - align the definition of qualifying activities with the definition of research and development (R&D) used for tax purposes
 - reduce compliance costs by dispensing with the current DTI administered clearance system and bringing SROs fully into the corporation tax self assessment system

13. The changes to section 508 ICTA 1988 announced in Budget 2004 are being introduced in Finance Bill 2005 by Clause 13.