

## **Research & Development**

### **Minutes of R&D Consultative Committee on Wednesday 17 May 2006 at 1 Horse Guards Road**

#### **Present:**

Jon Sherman (JS) (HMRC – Chair)  
Jeremy Sherwood (JDS) (HMRC)  
Lynn Carroll (HMRC)  
Grusheka Lowton (HMRC)  
Kerry Pope (HMRC)  
Chris Fox (HMRC)

Frank Buffone (Ernst & Young & ICAEW)  
Colin Davis (CIOT)  
Peter Shield (Rolls Royce)  
John Moore (ICAEW & Deloitte)  
Tom Wills-Sandford (Intellect)  
Laurance Bard (ICAEW & Shaw & Co)  
Andrew Hubbard (ICAEW & Tenon)

#### **Introductions**

1. JS welcomed everyone to the meeting and introduced the HMRC R&D team. This was followed by around the table introductions.

#### **Matters arising from the previous meeting**

2. There were no matters arising.

#### **Specialist R&D Units**

3. JS introduced CF as the project manager working on setting up the Specialist Units. CF gave a presentation setting out the rationale behind the government commitment to set up the units and the progress being made towards implementing it. The key objectives in setting up the specialist units were to simplify the R&D claim process, reduce to a minimum the administrative burdens on companies, and to improve consistency of treatment of all claims across the units.
4. The specialist units, which will be operational by the end of 2006, will deal with all R&D claims outside the Large Business Service. The location of the units has not yet been finalised but it is expected that there will be fewer than ten of them staffed with between fifty and sixty staff. The reduced number of locations will enable expertise in dealing with R&D claims to be developed.
5. In support of the specialist units a practice note will be issued setting out the approach to claims and HMRC practice in dealing with them, and staff in the units will receive training to help them better understand the R&D process. Special attention will be given to addressing the difficult areas encountered when dealing with software and engineering R&D claims. The intention is not to turn inspectors into specialists in these areas but to enable them to understand the R&D processes involved.
6. The following points were raised during the presentation;
  - a. there needed to be consistency in dealing with claims across industry sectors
  - b. it was important that inspectors in the units be prepared, and able, to travel in order to have face to face meetings with companies and their advisors.
  - c. good internal processes would be needed within HMRC for moving claims, files, and records into the specialist units.

CF confirmed that these points were being borne in mind in the planning of the units.

7. It was asked whether HMRC would be publishing its risk assessment rules relating to R&D claims. JDS explained that any policy on disclosing R&D risk rules would have to fit in with wider Departmental policy on disclosing risk rules. Current policy was not to disclose the risk rules and JDS was not aware of any plans to change this.

### **Training for the Specialist Units**

8. There then followed a discussion surrounding the Government's commitment to provide training to deal with software and engineering R&D claims. All present agreed that these were areas that presented particular difficulties. It was felt that there was difficulty in determining whether or not there was R&D in a software project, and that for software it was the development element, rather than research, where difficulties tended to arise.
9. It was suggested that there was some ambiguity in the DTI guidelines in that they looked at what was done rather than the improvement achieved. There was also evidence that both inspectors and advisors were relying on isolated paragraphs of the guidelines rather than looking at them as a whole. The guidelines mention the knowledge of a competent professional in the field and in some instances inspectors appeared to be calling into question that knowledge.
10. JDS explained that the training for the R&D staff was currently being looked at and that it would address the policy aims of the relief. JDS detailed the areas to be covered by the training and invited feedback to refine and improve its content and scope. The training will be delivered at the beginning of October probably over two or three days. It will be partly in the form of syndicate exercises looking at a number of real case scenarios.
11. JDS invited suggestions of clients or contacts who may be prepared to talk to the inspectors about their experiences, both good and bad, of making R&D claims. There was agreement that it was a good idea to get an external perspective from companies, and possibly their advisors, on the claim process.
12. T W-S asked for an update concerning the outline software training course proposed by Intellect. JDS confirmed that HMRC was currently considering the scope and extent of industry specific training required and in particular the proposal made by Intellect. Initial thoughts are that a full day will be spent on software and engineering. JDS said that he would contact T W-S to discuss the content of the course in the near future once he had a clearer picture of the overall shape of the programme and the funding available.
13. JM said that another problem that seemed to be causing problems in relation to software claims was the capital/revenue point. JDS acknowledged that this was an issue and that HMRC were currently exploring the options on this point in line with the commitment made at PBR 2005. The state aid implications were one of the factors that needed to be taken into account.

### **Finance Bill 2006 amendments**

14. JM requested clarification concerning the change to include payments to clinical trial volunteers. He said that there may be some confusion as to who can claim the relief when contract research organisations were involved. JDS said that appropriate guidance would be issued in the CIRDS manual in due course.

15. The change of the claim time limits was discussed. It was suggested that some additional publicity about this may be needed to ensure that companies and their agents were aware of the change. JS said that there were no current plans for additional publicity beyond updating the relevant bits of guidance and that it seemed to be generally accepted that the March 2008 time limit provided sufficient time for outstanding claims to be made. But HMRC would consider whether anything further was needed (eg something in Tax Bulletin).

**AOB**

16. There was no other business and the meeting ended at 13.15.