

**Research and development tax credits
Meeting of consultative committee
20 December 2005 1 Horse Guards Road, London**

Present:

Jon Sherman (HMRC – Chair)	Laurence Bard (Shaw & Co and ICAEW)
Lynn Carroll (HMRC)	Mike Cunningham (Rawlinson & Hunter and Motorsport Industry Association)
Mark Carnduff (HMRC)	Philip Hargrave (Nortel and Intellect)
Alice Dwyer (HMRC)	Andrew Hubbard (Tenon and CIOT)
Richard Hopwood (HMRC)	Ian Huddart (Johnson Matthey)
Steve Mole (HMRC)	Richard Lewis (Deloitte and ICAEW)
	David O’Keeffe (KPMG and CIOT)
	Norman Price (CBI/EEF)
	Mike Sufrin (Rolls-Royce)
	Tom Wills-Sandford (Intellect)

Introduction and background

- 1 Attendees introduced themselves and JS explained the committee had come about following initial discussion with the CIOT and a preliminary meeting in July. The aim was to focus on delivery issues that required discussion at a national level.

Specialist units

- 2 RH introduced SM who would be leading on the operational aspects of specialist units. RH said planning was at an early stage but that he expected there to be an announcement in Budget 2006 setting out firm timetables for implementation and transitional arrangements.
- 3 Concern was expressed that specialist units might introduce an extra layer of bureaucracy to the process when timely payments are so critical to claimant companies. RH confirmed this was a key consideration and that it is intended no extra layers are created by this process, rather claims will be handled entirely by the specialist unit, not by a local office then a specialist unit.
- 4 The importance of meetings in person in R&D enquiries was stated. Would fewer and presumably more distant units lead to fewer meetings? RH said the statement of practice would underline the importance of face to face meetings. Staff in some offices currently travel large distances for such meetings and find it an efficient use of their, and the company’s, time because matters can be sorted out more quickly. This is the model RH hoped would be adopted.
- 5 Some attendees suggested they were already receiving a very good service from their local office and would not wish this to change with

the new structure. RH said it was intended to implement the best of current good practice in the specialist units.

Statement of practice

- 6 RH handed out some ideas for what might be contained in the statement of practice. There was agreement this constituted a worthwhile approach and a clear statement of the principles therein would be welcomed. RH asked attendees to reflect on whether any other items should be included and email him.

Training for specialist units

- 7 TW-S outlined the meeting which had taken place between him, RH and HM Treasury the previous week. The purpose had been to discuss the subject matter of a software course aimed at inspectors. The course would very much focus on helping inspectors to apply the DTI's R&D Guidelines in the context of software, and not seek to encourage inspectors to become software experts.
- 8 RH confirmed he would consult internally on the outline proposed by Intellect, and on the likely funding available. He would come back to Intellect in due course. The aim was that any training should be available to the specialist units shortly after their constitution.
- 9 TW-S made the point that not only the specialist units should receive the training but also the Large Business Service. RH said he would consider this with the LBS.

Software claims

- 10 The difficulty of software claims was again highlighted by attendees. It was agreed that the steps proposed, namely specialist units and software training, should go a long way towards addressing these difficulties.

Supporting Growth In Innovation – summary of responses

- 11 RH outlined the three issues in this document which are planned to be implemented over the coming months being the extension of qualifying costs to include clinical trial volunteers, publication of Statutory Instrument regarding large company sub-contracting and alignment of time limits.
- 12 The extension of qualifying costs to include payments to clinical trials volunteers was welcomed. RH asked whether attendees were aware of any similar types of payment, i.e. to volunteers, which ought to qualify but no suggestions were made.

- 13 On the time limit alignment RH made it clear that there was no intention to deny companies the opportunity to claim at all, where they currently had legitimate expectations of making a claim. He suggested that the final details were a matter for Ministers, but an equitable way forward could be to implement the measure with effect from April 2006. For accounting periods ending before this date, claims would be allowed up to one year from the implementation date, or the current claims limit, whichever is earlier.

Capital R&D by SMEs

- 14 MC gave a presentation outlining HMRC's early thoughts on this. The purpose was to expose early thinking and seek views. MC made it clear nothing was ruled in or out at this stage.
- 15 It was suggested that the change should not be restricted to the SME scheme, but should also apply to the large company scheme. MC commented that although the principles of tax law are the same for large companies and SMEs, R&D expenditure was more likely to be capital for tax purposes for SMEs than for large companies, particularly for start-up companies the existence of whose contemplated trade would depend on the R&D. In addition, the difference in the subcontracting rules between the SME and large company schemes meant the impact was greater for an SME's R&D. He also said that large companies are in a better position to structure themselves so that R&D is carried out in a separate company as a specific trading activity. Attendees suggested no group should have to change its structure in order to benefit from R&D reliefs.
- 16 The necessity of State aid approval was made clear and that, to a degree, this would dictate the approach to be adopted in respect of any changes to the SME scheme.

Publicity for R&D tax credits

- 17 RH repeated highlighted the statement in the summary of responses published shortly prior to the Pre Budget Report regarding publicity for the scheme. He said HMRC and DTI would work together closely on this. He asked if attendees would be prepared to ask their members or clients whether they wished to take part in any publicity if there were a need for case studies. This idea was welcomed.

Future of this committee

- 18 JS thanked attendees for their participation and suggested a further meeting take place shortly after Budget 2006. All confirmed they had found the forum useful and would wish it to continue. The point was made that agenda items would differ between meetings and so representation at the meeting may also need to differ.

Any other business

- 19 A query was raised regarding the difficulty of judging whether expenditure under the SME scheme is subsidised, sub-contracted or neither. MC confirmed this can be a difficult area and it is always necessary to look closely at the surrounding circumstances, but that if there are issues of general applicability HMRC would welcome suggestions on improving guidance or practice.