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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD91700 - R&D tax relief: SME definition: partner enterprises for 2003 EC SME Recommendation test

EC Recommendation 2003/361/EC defines partner enterprises as all enterprises which are not linked enterprises ([CIRD91600](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird91600>)) but between which there is a relationship whereby one enterprise holds 25% or more of the capital or voting rights in another.

Where an enterprise is a partner enterprise the rights of all linked enterprises should be aggregated to see if the 25% ceiling has been exceeded.

Note that, in general, if a **public body**, other than a university, holds 25% or more of an enterprise's capital or voting rights, then that enterprise can not be considered to be an SME.

Declarations of status

In some cases the spread of capital may mean that it is not possible for an enterprise to determine with certainty that it is not owned 25% or more by another enterprise or jointly by linked enterprises. Where there is reason to believe that a company is an SME the company may make a declaration in good faith about its status regarding autonomy, partner and linked enterprises.

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Applying the ceiling tests to partner enterprises

Where an enterprise is a partner enterprise the ceiling tests for staff head count, turnover and balance sheet total ([CIRD91400](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird91400>)) are applied to figures based on the accounts of the enterprise after inclusion of a proportion of the figures from the accounts of any partner enterprise. This aggregation is proportional to the percentage interest of the capital or voting rights (whichever is greater) that one partner enterprise holds in the other. This approach to aggregation is different to that adopted for the 1996 EC SME Recommendation ([CIRD91300](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird91300>)).

However, if those partnership enterprises from whose accounts figures are being drawn for this aggregation have their own linked or partnership enterprises then the data from those enterprises' accounts must be aggregated first before applying the percentage holding.

However, the EU definition acknowledges that it would be impracticable to continue this process indefinitely, and it does provide a limitation:

'To avoid a complicated and endless calculation the definition foresees the following rule:

Where your partner enterprise itself has other partner enterprises, you must add only the data of the partner enterprise(s) situated immediately upstream or downstream from yours' ([User guide to the SME definition](#) (<https://op.europa.eu/en/publication-detail/-/publication/756d9260-ee54-11ea-991b-01aa75ed71a1>)).

In this connection and for more information see 6.2 of the EU definition guide of Micro, Small and Medium-sized enterprises.

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Specified Investment enterprises

An enterprise will not have partner enterprises by reason solely of the holdings of specified investment enterprises exceeding the 25% threshold, provided those investors do not hold more than 50% in the enterprise and are not linked individually or jointly with the enterprise whose status is being considered.

The particular classes of investment bodies and institutes listed in the Recommendation are:

1. a. public investment corporations, and venture capital companies ([CIRD92100](#) (<https://www.gov.uk/hmrc-internal->

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- b. individuals or groups of individuals with a regular venture capital investment activity who invest equity capital in unquoted businesses ('business angels'), provided the total investment of those business angels in the same enterprise is less than €1.25 million,
- c. universities or non-profit research centres,
- d. institutional investors ([CIRD92200](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92200>)), including regional development funds,
- e. autonomous local authorities with an annual budget of less than €10 million and fewer than 5,000 inhabitants.

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