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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD75050 - VRR: introduction

Background

Every year, about six million people - mostly in the world's poorest countries - die from Malaria, AIDS and TB. The new relief forms part of a package of measures designed to relieve child poverty and to eradicate diseases primarily affecting developing countries.

In calculating their profits for CT, companies will be entitled to deduct an additional 50% or 40% in respect of expenditure incurred on or after 1 August 2008, of qualifying expenditure

(CIRD75200 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird75200)) on the research and development into vaccine and medicines for the prevention and treatment of certain diseases CIRD76000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird76000).

Companies were entitled to the same deduction in respect of contributions made to a charity, university or scientific research organisation for the purpose of funding research which would have been eligible for VRR if carried out by the company direct. However, following changes introduced by FA 2008 this relief has now ceased in respect of expenditure incurred on or after 1 August 2008.

VRR will be given in addition to either the existing relief for research and development expenditure by SMEs at FA00, or the new relief for companies other than SMEs introduced in FA02, according to the size of the company by which the expenditure is incurred. It will follow the same ground rules as to qualifying expenditure.

SMEs with insufficient profits against which to offset VRR will be entitled either to carry the relief forward to offset against future liabilities or to claim a cash payment in lieu of the relief.### Commencement

VRR was introduced by FA02/SCH13. The relief applies to expenditure incurred after an appointed day (FA02/SCH13/PARA28 (1)) designated by Treasury Order. The appointed day was set as 22 April 2003 by SI2003/1473.

In deciding whether expenditure was incurred after the appointed day ignore the rule in ICTA88/S401 that treats pre-trading expenditure as incurred on the day that the trade begins. It is the date on which the expenditure was actually incurred and not the date on which it is released to the profit and loss account that matters.### Required amount of expenditure

VRR is not due unless a company spends more than £10,000 on vaccine research in a 12- month accounting period. The £10,000 is adjusted proportionately if the accounting period is not 12 months long. For example, if a company has an accounting period that is 6 months long it must spend at least £5,000 (= £10,000 x 6 / 12) in that accounting period to qualify for VRR. (For accounting periods beginning before 27 September 2003 the minimum expenditure required in a 12-month accounting period was £25,000.)### Interaction with R&D relief

A company may incur expenditure that qualifies for both VRR, and:

- R&D tax relief for SMEs, see CIRD90000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird90000) onwards, or
- R&D tax relief for large companies, see CIRD85000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird85000) onwards.

If it does it may claim both.

Example Festival Pharmaceuticals PLC is a large company. It has £4 million of qualifying expenditure on R&D into a treatment for malaria in its accounts for the year ended 30 June 2005. In addition to its normal deduction of £4m from income, it can deduct a further £1 million (= 25% x £4m) large company R&D relief and £2 million VRR (= 50% x £4m) giving a total deduction of £7 million.### Subcontracting

Companies can claim VRR for subcontract payments. There are less stringent rules if such work is subcontracted to universities, charities and scientific research organisations CIRD75525 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird75525), than to others CIRD75550 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird75550). Companies can also make contributions to independent research carried on by such bodies CIRD75500 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird75500).

SMEs not in profit can surrender any losses arising from VRR in return for a payment of a vaccine tax credit equal to 16% of the ‘surrenderable loss’ arising from the VRR CIRD75600 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird75600).

Example Inventions Unlimited Ltd. is an SME. It spends £3 million on research into anti-HIV vaccine in its accounts year ended 31 May 2004. Those accounts show a loss of £5 million. It can claim:

- Vaccine tax credit of £240,000 (= 16% x 50% x £3 million),

  “and”

- SME R&D tax credit of £720,000 (= 16% x 150% x £3 million).

Giving a total tax credit of £960,000.

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