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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
([/government/organisations/hm-revenue-customs](#))

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CIRD91300 - R&D tax relief: SME definition: 1996 EC SME Recommendation tests 1996/280/EC

With effect from 1 January 2005 1996/280/EC is replaced by 2003/361/EC

The text of the 1996 recommendation is reproduced at [CIRD92700 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92700\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92700).

There are two tests in the 1996 Recommendation as to whether a company is an SME; a quantitative test and an independence test.

Quantitative test

- If the company has fewer than 250 employees, and
- has either:
 - an annual turnover not exceeding €40 million, or
 - an annual Balance Sheet total not exceeding €27 million,

“then it will be an SME so long as it satisfies the independence test.”

Measurement of staff headcount, turnover and balance sheet total is dealt with at [CIRD91800](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird91800) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird91800>).

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Aggregation rules

In applying these tests to an entity it is necessary to aggregate the entity's figures with those of all the enterprises, which it directly or indirectly controls through possession of 25% or more of the capital or of the voting rights. So if company A has 240 employees, but it has a 30% shareholding in company B which has 11 employees then company A is treated as having 251 employees. This aggregation works differently than aggregation for the 2003 Recommendation [CIRD91500](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird91500) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird91500>).

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Independence test

A company shall not be treated as an SME if it is owned, singly or jointly ([CIRD92500](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92500) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92500>)), as to 25% or more of the capital or voting rights by enterprises that are not SMEs.

Where investors in an enterprise include specified investment enterprises (see below) the usual rules for determining whether an enterprise is independent are relaxed.

The relaxations work by disregarding the specified investment enterprises' holdings in the company, so long as individually or jointly they exercise no control over the company. The meaning of control for these purposes is discussed at ([CIRD92500](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92500) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92500>)).

For Recommendation 1996/280/EC specified investment enterprises are:

- venture capital companies ([CIRD92100](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92100) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92100>)), and
- institutional investors and public investment corporations ([CIRD92200](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92200) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92200>)).

Control when considering venture capital companies is dealt with at [CIRD92550](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92550) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92550>).

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