



Research & Development Tax Relief – changes to the rules on consumable items.

Following consultation, changes have been made to the draft legislation to ensure that companies disposing of consumable items as waste or transferring them for no consideration can still claim their costs for Research & Development (R&D) Tax Relief purposes.

Current rules

The costs of consumable items, such as materials, water, fuel and power, which are consumed or transformed as part of the R&D activities of a company, currently attract R&D relief.

Proposed changes

At Autumn Statement 2014 the Government proposed changes to the R&D rules in relation to the costs of consumable items. These changes were intended to restrict a company's qualifying expenditure in relation to consumable items where those items are incorporated in a product that the company sells or transfers as part of its business activities. The legislation as drafted would have meant that companies transferring consumable items (or items incorporating them) for no consideration, for example when disposing of them as scrap, would no longer have received R&D relief on their cost. Similarly, those companies that transfer items to another party so that they can continue further testing as part of the R&D process would also have been affected. This would have meant a reduction in the support that the UK Government provides for R&D activities in cases where the company is unable to recoup the costs of those activities. We raised these issues in our response to the Government's consultation on the draft legislation in February.

Changes announced in Finance Bill 2015

It is great news that the Government has listened to businesses and addressed some of the key concerns raised in the consultation. This will ensure that businesses that are unable to recoup the costs of their R&D because they transfer products at no consideration for further testing or sell or transfer them for scrap, should continue to benefit.

However, there has been no clarification of how the legislation is intended to apply where expenditure on consumables is incurred in one or more accounting periods, but the decision to transfer or sell the item incorporating the consumables is not made until a later accounting period. Clearly, there will be some areas of uncertainty around how this new approach will apply in practice and we will consult with HMRC to determine how the legislation is intended to apply in these circumstances.



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