

Research Costs

NOTE FOR THE B.I.A. MEMBERS

R. & D. COST ALLOCATION/RECOVERY

CURRENT BASIS

1. Group Research and Development costs from U.K., S. & W., Canada, Germany and South Africa are used in the allocation exercise.
2. Total expenditure is analysed between Mechanical and Product Research.
  - (a) Mechanical Research is allocated on a "pro-rata" to sales basis.
  - (b) Product Research is allocated on a "pro-rata" to sales weighted by the "per capita" consumption. In this way the more sophisticated Companies bear a higher proportion of the cost as they derive a greater benefit.
3. Contributing Companies receive a theoretical "credit" to the amount of their contribution. (Examples of allocation, Column A & B)
4. 1975/76 R. & D. allocation is £3.28 million of which £1.42 million is estimated to be recoverable through the T. & A. Fee. (Examples of Recovery, Column E)
5. The R. & D. allocation is not highlighted separately when advising Companies of their T. & A. Fee except where there is a Tax advantage or Company requirement to show this element separately.

Using £2.6 million of the £3.28 million of the total R. & D. expenditure, as being Research costs recoverable from Companies, there are two methods of recovery, namely:-

METHOD "A"

Use the existing basis of allocation but not giving contributing Companies a theoretical "credit" to the amount of their contribution. Whilst this would increase the allocation to the contributing Companies, the reduction to other Companies will be disadvantageous if the current trend, of viewing the R. & D. element of a T. & A. Fee more favourably for Tax and Exchange Control purposes, becomes significant in the future. (Examples in column C)

METHOD "B"

Use a percentage of Net Turnover as a basis of recovery.


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1. Using the Research element of 22.6 million and a Net Turnover of 21,850.4 million, the percentage recovery would need to be 0.1403%.
2. Column D shows examples of the Research allocation using 0.15% of Net Turnover.
3. Recovery would be approximately 22.2 million from paying Companies.

By using a separate R. & D. allocation on an equitable basis, preferably on a percentage of NET TURNOVER, the following advantages will accrue:-

1. Greater acceptance by the Authorities to this charge being treated as a deduction for tax in the paying country.
2. More likelihood of obtaining Exchange Control approval to remit where a Company does not now pay a T. & A. Fee.
3. Automatic adjustment for inflation and growth in Sales Volume.

  
ACC/DES  
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