THE UNIVERSITY *of* EDINBURGH
Finance

Research Liability Tool (RLT)

VAT-checking Tool for Research Projects

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Introduction

This user guide provides information on how to use the KPMG Research Liability Tool (RLT), or VAT-checking tool. The tool has been designed to establish the correct tax treatment for research projects.

To determine if you need access, please email Loukia.Koutsoventi@ed.ac.uk to discuss your requirements in the first instance.

User Roles

Preparer

The Preparer sets up new projects and answers the questions in the tool. They can view all projects in the tool but is only able to edit projects at the preparation stage.

Reviewer

The Reviewer reviews all projects submitted by the preparer. The Reviewer can either return a project to the preparer for amendment, or finalise a project. The Reviewer cannot make any amendments but can add notes to the project set up page. Once a project is finalised, only the Reviewer can unlock it, but this should only be done in exceptional circumstances.

Viewer

The Viewer can view all projects but cannot make any changes to them.

Administrator

The Administrator is responsible for setting up and managing new users for the RLT. The Administrator must also have one of the other roles. The Admin User can give admin rights to any other user.

University procedures

The tool refers to the University of Edinburgh's other procedures at a number of points. It must be stressed that the tool has been designed to establish the correct tax treatment to be applied to research projects, and not to replace any other procedures that the University has in relation to the authorisation of those research projects.

The Charity Commission expects that a charity such as a University will have procedures to evaluate each particular research project in the context of its charitable objectives and ensure that the decision to undertake that research project is reasonable.

In particular, it is assumed that a University will have existing procedures which will:

- properly identify research projects so that the use of the tool can be limited to these projects;
- consider the appropriateness of individual research projects in order to conclude that it is in the University's interests to undertake those projects on the terms agreed. These are referred to in the tool as the University's standard authorisation procedures.

Project Set-up page

Reference boxes

There are 3 different boxes which can be used to record project details. The Pre-Award reference box is the only mandatory field; the other fields can be used to provide additional references if required or can be left blank depending.

Funding source

This is a mandatory field and should be used to identify the category of the body providing funding. In the case of collaboration agreements, the body providing the funding should be shown, even if it is sent via another party (under a paymaster arrangement). Where the University is receiving cash funding from two sources (for example a government body and a commercial body) then the category "Joint funding/Collaboration" should be used.

The selection of the funding source in this field does not determine any answers to the questions in the tool but instead provides a validation control for certain questions.

Medical/ veterinary research check box

The purpose of this box is to help identify projects where zero rating relief for certain purchases can be obtained. It has no impact on the determination of the tax treatment of the project.

Explanation of inconclusive Corporate Tax outcomes

Whilst the VAT conclusions are determined by the "YES/NO" answers to the questions in the tool, the CT conclusions are determined by reference to these questions as well as a scoring system assigned to the particular themes set out in the Charity Commission Guidance

As such, different scores are attached to questions in relation to:

- Funding source
- Publication of results
- Ownership the Intellectual Property (IP)
- Standard authorisation procedures (for the purposes of establishing whether any private benefit is incidental)

It is possible that for a minority or projects, the CT response will be that the tax status is 'inconclusive' and should be referred to the Tax Manager.

The result will appear in the following circumstances:

- The research contract appears to represent charitable activity on the basis there is adequate public benefit, but if standard authorisation procedures have not been followed then it is not possible to conclude that any private benefit is necessarily incidental to this public benefit.
- There is insufficient public benefit

Even if standard authorisation procures are followed, the answers to other questions on the funding source, publication of results and ownership of IP do not provide evidence of sufficient public benefit. Typically, this will mean that these points have not been addressed to the extent required by Charity Commission guidance. We would therefore recommend that these projects are referred to the Tax Manager to assess how to treat them. The results of that referral can be recorded in the notes section of a project, or if applicable, by changing the response to certain questions in key areas so that the resulting conclusion will change to a definitive result.

- There is insufficient evidence of public benefit and the level of any private benefit has not been adequately assessed as a result of the standard authorisation procedures not being used.

This is effectively a combination of the above two points and should always be referred to the Tax Manager.

Frascati definition of Research

Basic research is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any particular application or use in view.

Applied research is original investigation undertaken in order to acquire new knowledge. It is, however, directed primarily towards a specific practical aim or objective

Experimental development is systematic work, drawing on knowledge gained from research and practical experience, and producing additional knowledge which is directed to producing new products or processes, or to improving existing products or processes

General exclusions

Reference to the Frascati Manual should be made for detailed analysis of exclusions, but general exclusions to highlight are:

- general purpose data collection (such as recording weather statistics);
- routine testing and analysis of materials, components, products, processes, etc.;
- feasibility studies;
- policy-related studies.

Technology Readiness Level (TRL)

TRL 1 – basic principles observed – Answer **No** to question

TRL 2 – technology concept formulated – Answer **No** to question

TRL 3 – experimental proof of concept – Answer **No** to question

TRL 4 – technology validated in lab – Answer **No** to question

TRL 5 – technology validated in relevant environment (industrially relevant environment in the case of key enabling technologies) – Answer **Yes** to question

TRL 6 – technology demonstrated in relevant environment (industrially relevant environment in the case of key enabling technologies) – Answer **Yes** to question

TRL 7 – system prototype demonstration in operational environment – Answer **Yes** to question

TRL 8 – system complete and qualified – Answer **Yes** to question

TRL 9 – actual system proven in operational environment (competitive manufacturing in the case of key enabling technologies; or in space) – Answer **Yes** to question

Summary of CT results/ filter options

Filter Setting	Conclusion
Exempt	The research contract represents charitable activity on the basis that there is adequate public benefit, and any private benefit for the sponsor is considered to be incidental to the charitable purpose. The project code should be marked as being exempt for corporation tax purposes. Income and related expenditure will form part of the University's primary purpose "pot."
Taxable	The research is non-primary purpose and therefore the project is taxable. The research contract represent non-charitable activity on the basis of inadequate public benefit and/or significant private benefit. The project code relating to this project should be marked as being taxable for corporation tax purposes. Income and related expenditure will form part of the University's non-primary purpose "pot."
Exempt – public benefit only*	The research appears to represent charitable activity on the basis that there is adequate public benefit, but it is necessary to confirm with your Tax Manager whether the non-standard authorisation procedures would allow significant private benefit which could, in turn, influence the overall corporation tax outcome.
Inconclusive re public & private benefit*	Determination of taxable status is inconclusive, both in terms of determination of public benefit and the potential impact of

	non-standard authorisation procedures. Both of these issues need to be referred to the Tax Manager.
Inconclusive re public benefit*	Determination of the taxable status is inconclusive as insufficient evidence of public benefit has been established. Please refer this project to the Tax Manager.

*Please refer to "Explanation of inconclusive Corporate Tax outcomes"

Summary of VAT results/ filter options

Filter Setting	Conclusion
Not research	The Research Liability Tool should not be used to determine the outcome of such contracts.
Exempt	The income is exempt from VAT. No VAT is chargeable to the sponsor and none is recoverable from HMRC. Note: this outcome is not possible with contracts executed after 1 Aug 2013 as the exemption was withdrawn with effect from that date.
Taxable	The income is taxable at the standard rate. Input tax is recoverable from HMRC, subject to there being no taught postgraduate involvement in the project. If there is such involvement please refer to the Tax Manager.
OSS – Business	The income is outside the scope of UK VAT due to the customer location. No VAT is chargeable. Input tax is recoverable from HMRC, subject to there being no taught postgraduate involvement in the project. If there is such involvement please refer to the Tax Manager.
OSS – Non-business	The income is outside the scope of UK VAT. No VAT is chargeable. Input tax is recoverable from HMRC. This is an unusual outcome and you may wish to refer to the Tax Manager. For joint funding projects, both the commercial and the non-commercial sponsors' payments are outside the scope of VAT– grant funding. No VAT chargeable and therefore no VAT recoverable.
Joint funding – Mixed result	The commercial sponsor's payment is outside the scope of UK VAT due to the customer location. The non-commercial sponsor's payment is outside the scope of VAT as grant funding. No VAT is chargeable to either sponsor however input tax is recoverable from HMRC subject to there being no taught postgraduate involvement in the project. If there is such involvement please refer to the Tax Manager. The commercial sponsor's payment is taxable at the standard rate of VAT. The non-commercial sponsor's payment is outside the scope of VAT as grant funding so no VAT is chargeable. Input tax is fully recoverable from HMRC subject to there being no taught postgraduate involvement in the project. If there is such involvement please refer to the Tax Manager. The non-commercial sponsor's payment is outside the scope of VAT due to customer location. The commercial sponsor's payment is outside the scope of VAT. No VAT is chargeable

	to either sponsor, however input tax is recoverable from HMRC subject to there being no taught postgraduate involvement in the project. If there is such involvement please refer to the Tax Manager. Non-commercial sponsor's payment is taxable at the standard rate. Input tax is recoverable from HMRC subject to there being no taught postgraduate involvement in the project. If there is such involvement please refer to the Tax Manager. The commercial sponsor's payment is outside the scope of VAT –no VAT is chargeable/ recoverable on this element.

Where more than one conclusion exists for each filter setting, it may be necessary to include other filter options (e.g. funding source)

Flowchart questions – FAQs

I have a collaboration project but most of the partners are providing their input "in kind" rather than giving the University any cash funding. How does the tool deal with this?	The tool has been designed to deal with the tax consequences of the cash funding received, however, it will deal with the VAT consequences of any "in kind" services or goods if the sponsor will receive any benefits from their provision. If the tool shows that there is a taxable supply by the University, it will be necessary to value the "in kind" provision so that VAT is accounted for on that value.
I am receiving funding from a number of different parties from the same funding source but they are located in different countries. How does the tool deal with this?	Since the VAT treatment will be different depending on the location of the funders, it will be necessary to do a separate project for each funder. These different projects can be linked in the tool by using the appropriate reference format in the reference boxes in the project set up. The format of this will subject to University procedures: for example, the Pre-award reference could be 12345A, 12345B and 12345C etc. Please note that the tool does not currently deal with joint funding where funding is received from a commercial body and a charity as we understand this is very rare. If this situation arises, it would be necessary to complete a separate project for each funding source, as above.

Some of the questions are along the lines of "Will the University have ownership or rights relating to the IP...." but I don't know at the time the contract is agreed whether this will be the case. How should I answer this?	The answers to the questions in the tool have to be "Yes" or "No" so where there is any doubt, you should consider replacing the word "Will" with "Could" since it is the intention at the outset which drives the tax conclusions.
What constitutes the appropriate publication of results?	In order to meet the public benefit test, it is essential that the results of any research must be made available to the public. What constitutes the appropriate publication of results is not restricted only to the publication of those results in academic journals or other published material, although this is clearly a common method of dissemination. The results may also be made available in other forms, and access may be restricted to those who have sufficient reason to study the material. However it is essential in all cases that the existence of the material is then publicly advertised and relevant public access is allowed. Any further restriction placed on the ability to access the results will mean that the requirement for the publication of the results is not met.
Some of the questions refer to the sponsor's right to delay publication of the results, and the length of time that the delay can last. When does the relevant delay period commence?	Ideally, the research agreement being considered will stipulate any rights that the sponsor has to delay publication of the results and, if relevant, the period for which any such delay can be imposed. The Charity Commission guidance states that, in order to be justified as charitable activity, a research agreement will need to agree on the public dissemination of the results within an appropriate academic timeframe, by reference to the time that the research is completed or any outcomes of value occur. Therefore, the delay period must be measured in relation to the completion of research or the production of the results, and not to the end of any fixed term for the project. Where a sponsor allows elements of the research to be disseminated, for example at a conference, but the full publication is substantially delayed, e.g. for 2 years after the PhD is completed then this would constitute a significant benefit to the sponsor and change the VAT treatment and possibly the CT treatment.

What is meant by Taught Postgraduate?	If postgraduates on the research project are employed as research assistants, they are treated as such. HMRC policy states that evidence of employment status should be obtained. There is 'taught postgraduate involvement' if a research project involves a postgraduate who is not employed as a research assistant. HMRC take the view that even where a project is classified as research, a postgraduate is obtaining an element of education if they are not engaged in an employment capacity. This is different from the definition used by most universities, that a taught postgraduate is a student who receives formal teaching as part of their studies. In more recent years there has been a blurring of the lines with many institutions now adopting the "NewRoutePhD." This is an integrated programme of postgraduate training which combines research with a structured programme of advanced training in discipline specific and generic skills. HMRC take the view that if there is any element of teaching involved in a project this is VAT exempt and any associated input tax is, at best, residual.

References

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