

## **Research and Development as a value creating asset**

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As part of the revision to the 1993 system of National Accounts (SNA93), the way the UK treats research and development is going to change. Research and development (R&D) is no longer going to be treated as an intermediate input for businesses and current consumption for governments and Non-profit Institutions, instead it will be treated as capital expenditure. The capitalisation of R&D requires addressing a number of important assumptions made within the perpetual inventory method for building a capital stock. Firstly, consideration is given to determining the components to be included in the capital stock and translating expenditure data in to an SNA compatible format. The next step in the study looks at the issue of appropriate deflators, an issue created by the heterogeneity of R&D products. We then look at depreciation rates, using estimated average service lives and retirement patterns. Finally we address the impact that capitalising R&D will have on UK productivity.