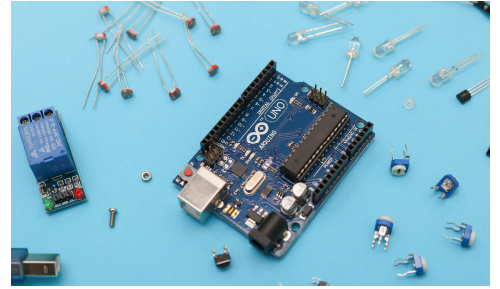


Research & Development Tax Relief



Enhanced tax relief is available to companies for qualifying R&D costs

R&D tax relief has been available for over 20 years and is one of the few government accredited tax relief schemes available for companies.

While the number of claimants has increased over time there are still many companies who have yet to take advantage of the scheme.

Definition of R&D

The definition of qualifying R&D activities is based upon the generally accepted accounting treatment of R&D, which was modified and adapted by the former DTI in 2004 into detailed guidelines for tax purposes.

HMRC modified the definition of R&D in 2023 and the updated definition can be found here:
<https://www.gov.uk/government/publications/guidelines-on-the-meaning-of-research-and-development-for-tax-purposes>

An activity can qualify as R&D if it is characterised by work that contains an appreciable element of innovation and technological advancement in a field of science and technology that leads to the creation of a new or “appreciably improved” product or process.

For an activity to qualify it must also:-

- ☐ seek to resolve a scientific or technological uncertainty
- ☐ be by way of systematic investigation

HMRC state that routine modifications or adaptations that are easily achieved are excluded. It needs to be demonstrated that the technological objective of a project created a challenge to the team of technical staff in the company. An indicator of R&D is that a project needed a number of iterations to succeed – in fact if a project fails by reason of technological problems, this is a strong R&D candidate!

Five Questions

HMRC will check that the R&D project is qualifying by considering five key points:

- ☐ What is the main field of science or technology?
- ☐ What was the baseline level of science or technology that the company planned to advance?
- ☐ What advance in that scientific or technological knowledge did the company aim to achieve?
- ☐ What were the scientific or technological uncertainties that the company faced?
- ☐ How did your project seek to overcome these uncertainties?

A clear and complete answer to each question provides a good starting point for confirming R&D has taken place and that tax relief may be available for the project costs.

Who Qualifies?

The scheme is open to all companies, meaning industries such as agriculture, medicine, software, green technology, and manufacturing can all qualify for relief.

The only areas which are not considered R&D as “science and technology” are in the “social sciences” such as in the arts, humanities and economics. However, even these can form part of an R&D claim where other technologies are integrated into the project (e.g. a software package built to an interactive economic model could qualify as an advance in software). Work undertaken on “pure mathematics” can also qualify as R&D.

We would strongly recommend reviewing the HMRC guidance below before pursuing a R&D claim to ensure the work being done by your company meets the qualifying criteria:

<https://www.gov.uk/government/publications/guidelines-on-the-meaning-of-research-and-development-for-tax-purposes>

Software

It is common for an R&D project to incorporate a significant element of new software creation. This area is one which HMRC are keen to restrict relief and only those projects that are truly breaking new ground will be accepted by HMRC. This is likely to become even more difficult now that AI agents can carry out tasks.

HMRC provide further detailed guidance on their views of qualifying projects at: [CIRD81960](#)

Merged Scheme

Accounting periods beginning 1 April 2024 onwards

The two former R&D relief schemes have been merged into a new simplified scheme, but the tax relief available to companies has become less generous.

While the previous scheme typically gave relief equivalent to 24.7% of expenditure, the current scheme only gives a 20% credit for qualifying project costs, which is only worth 15% to 16.2% after tax.

Above-the-line R&D expenditure credit

Relief is provided by way of a taxable “above the line” R&D expenditure credit. The credit is calculated as 20% of qualifying R&D expenditure and is recognised as income in the company’s profit and loss account. Although the credit itself is subject to Corporation Tax, a corresponding deduction is given in the tax computation, resulting in a net post-tax benefit. The above-the-line treatment ensures that the relief is visible at an operating profit level, regardless of whether the company is profitable or loss-making.

Impact of losses - A cash benefit

Where a company is loss-making, the R&D expenditure credit gives rise to a repayable tax credit. If the credit cannot be fully utilised against current period tax liabilities, the remaining amount may be surrendered for a cash payment (subject to the PAYE and NIC cap), or carried forward for use in a subsequent accounting period.

PAYE and National Insurance cap

Repayable R&D tax credits are subject to a cap based on the company’s PAYE and employer’s National Insurance contributions. The amount repayable is limited to £20,000 plus three times the

company's relevant PAYE and employer's NIC liabilities for the period. Any R&D expenditure credit that is restricted by the cap is not lost but may be carried forward for potential repayment or utilisation in a later accounting period.

Qualifying expenditure

Qualifying R&D expenditure may include:

- ❑ staff costs (including employer's National Insurance contributions and pension costs)
- ❑ externally provided workers
- ❑ qualifying subcontracted R&D activities
- ❑ consumables
- ❑ software, and
- ❑ certain data and cloud computing costs **to the extent that these are directly attributable to qualifying R&D activities.**

For accounting periods starting on or after 1 April 2024, most R&D expenditure incurred overseas is excluded from R&D relief, unless the activity must be carried out abroad due to the nature of the scientific or technological project requirements.

Subcontracted R&D activities

A company may be able to claim R&D relief in respect of qualifying subcontracted R&D activities where it is the party responsible for the overall R&D project and bears the associated financial and technical risk.

Connected party costs

Where R&D activities are carried out by connected parties, the amount of qualifying expenditure is subject to restriction, being the lower of the amount paid or the actual cost incurred by the connected party in carrying out the R&D work, rather than at an arm's-length subcontracted rate.

Grants and subsidised expenditure

Expenditure that is subsidised or funded by grants may still qualify for relief under the current scheme, which is an improvement over the former large company RDEC scheme.

Enhanced R&D Intensive Support (ERIS)

Companies that are heavily focused on innovation, being those where more than 30% of total expenditure is attributable to qualifying R&D activities, can benefit from a higher repayable credit rate, calculated as 14.5% of 186% of project costs, worth up to 26.97% of qualifying expenditure.

Time Limits

R&D tax relief is not given automatically. It must be claimed in the company's Corporation Tax Return (Form CT600 with page CT600L).

It is also mandatory that an Additional Information Form containing outline details of the claim is submitted to HMRC online **before** the actual R&D claim is submitted.

When submitting the final claim it is necessary to provide HMRC with both a computation of the enhanced relief together with a full description of the projects undertaken.

The claim for the enhanced relief must be made within the time limit for any amendments to the Company Tax Return, namely within **two years** of the end of the company's accounting period.

New Claims - Notification Obligations

Any companies that have not previously made a claim for R&D relief are required to submit an electronic pre-notification form to HMRC.

The period for making this notification runs from start of the accounting period until 6 months after the end of the accounting period.

Companies that have not made an R&D claim within three years of the last date of the claim notification period will also need to submit a pre-notification form to HMRC.

The three year exception from notification will not apply if HMRC refused the earlier R&D claim or where R&D relief was claimed for an accounting period beginning before 1 April 2023 by amending the company tax return after 1 April 2023.

The pre-notification form must be submitted to HMRC within **six months** of the end of the relevant accounting period (i.e. the end of the claim notification period).

In addition to the pre-notification form, an Additional Information Form is still required. Both the Additional Information Form and the actual R&D claim must be submitted to HMRC within the **two year** time limit mentioned above.

For further advice contact us on 023 8046 1200 or visit www.hwb-accountants.com

The above summary is based on legislation and guidance published at 1 May 2026.

The summary is intended to provide a general guide and individual advice should be sought about your specific circumstances.