

BUSINESS TAX

Research and Development Tax Relief: Could You Claim?

What counts as research and development for tax, which businesses qualify, which costs count, and how to claim safely.

FOR: COMPANIES THAT DEVELOP PRODUCTS, PROCESSES OR SOFTWARE • SOME EXPERIENCE

A relief for companies that innovate

Research and development relief rewards companies that spend money trying to solve a scientific or technological problem. It is available to limited companies that pay corporation tax, and it can reduce the tax bill or, in some cases, produce a payment. It is not limited to laboratories. Many ordinary businesses qualify: software developers, engineers, manufacturers, food and drink producers, construction and design firms, and others that develop new or improved products, processes or services.

The rules, rates and process have changed several times in recent years. Today there is a single main scheme, and a separate, more generous relief for loss-making companies with a high proportion of their spend on research. Always check the current position before relying on any figure you read.

What counts as R&D for tax

For tax, R&D means a project that seeks an advance in overall knowledge or capability in a field of science or technology, not just for your company, and which involves resolving scientific or technological uncertainty. The question is whether a competent professional in the field could readily have worked out the answer in advance. If not, and you had to experiment, test and revise to find it, the work may qualify.

- **Qualifies:** developing a new type of component, an improved manufacturing process, software that works in a way not previously possible, a product that needs testing to resolve technical uncertainty.
- **Does not usually qualify:** routine changes, cosmetic changes, applying existing technology in the usual way, or commercial and market uncertainty.

A project does not need to succeed. The relief is for the effort and uncertainty, not the result.

Who can claim

- A company paying corporation tax in the UK.
- Carrying out the R&D itself, or paying for it to be done on its behalf, subject to the rules.
- Sole traders and partnerships cannot claim this relief.

Who this is for

- Technical and product-led businesses
- Companies spending on development
- Directors hearing about claims and unsure

Key points

- The test is technological uncertainty, not novelty to you.
- Routine work and failed commercial ideas do not qualify.
- Keep contemporaneous records of the work.
- Claims are examined closely. Quality matters.
- The scheme has changed. Check the current rules.

Which costs count

Qualifying costs are those directly connected with the R&D project:

- **Staff costs** for people working directly on it: pay, employer's national insurance and pension contributions. Time spent must be apportioned fairly.
- **Externally provided workers**, subject to conditions.
- **Consumables** used up in the project, such as materials and power.
- **Software and data or cloud costs** used directly for the R&D, within the current rules.
- **Subcontractors**, where the rules allow.

Costs that are not R&D, such as marketing, sales, and general overheads, do not count.

Quick eligibility test

- Is it a limited company?
- Was there a technical problem nobody could readily solve?
- Did we experiment to find a solution?
- Can we show costs and records?
- Are we confident of the story?

How to make a claim

1. **Identify the projects and the uncertainty**, with the help of the technical people who did the work.
2. **Gather the costs** with supporting records.
3. **Prepare a technical narrative** that explains what was uncertain and how you tried to resolve it.
4. **Meet the process requirements**. HMRC now expects certain notifications and a detailed claim form, and for some first-time claimants, advance notice. Check what applies to you.
5. **Include the claim in your corporation tax return**.

A well-prepared claim is more likely to be accepted without question, and the process is less stressful if HMRC asks for more detail.

Take care with claim advisers

Some advisers offer to prepare R&D claims for a percentage of the benefit. Good ones do valuable work, but some produce weak or aggressive claims. HMRC has stepped up its checks, and the company, not the adviser, is responsible for what is claimed. Ask who prepares the claim, how they decide what qualifies, what the fee is and what happens if HMRC challenges it.

Keep records as you go

Record what you tried, what failed and what you learned, with dates. A simple project log, timesheets and notes from technical staff are far more convincing than a narrative written two years later.

Related guides

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How King Street can help

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We help you decide whether R&D relief is likely to apply, identify qualifying projects and costs, prepare the technical narrative and claim forms with you and your technical staff, and deal with any questions from HMRC. We will tell you if we think a claim is not worth making.

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