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Claiming R&D relief

Research and Development (R&D) tax reliefs are designed to support UK companies engaged in innovative science and technology projects. For accounting periods beginning on or after 1 April 2024, the R&D Expenditure Credit (RDEC) and the Small and Medium Enterprise (SME) Scheme were merged.

The merged R&D expenditure credit (RDEC) and enhanced R&D intensive support (ERIS) came into effect for accounting periods beginning on or after 1 April 2024. While the expenditure rules for both are the same, the calculation methods differ. There have also been significant changes regarding the availability of relief for overseas R&D activities, which are now more restricted.

The merged RDEC scheme is a taxable expenditure credit available to eligible trading companies subject to UK Corporation Tax. Even if a company qualifies for the ERIS, it may choose to claim under the merged scheme instead, but both schemes cannot be claimed for the same expenditure. This relief is available to companies subject to Corporation Tax (CT), so in the main, limited companies only.

If your company qualifies, what counts as R&D?

To claim this relief, R&D is deemed to have taken place when a project seeks to achieve an advance in a field of science or technology. R&D has a specific statutory definition for the purposes of R&D tax relief which is not the same as the commercial, engineering or accounting definitions.

Science is defined as the systematic study of the physical and material universe. For the purpose of R&D relief, mathematical advances have also counted as science since April 2023. Technology is defined as the practical application of scientific principles or knowledge.

An advance could be:

- A new or appreciably improved process, product, material, device, or service.
- An increase in overall knowledge or capability in the field—not just for your company.
- A new or better way of achieving the same result using science or technology.

HMRC's guidance states that the improvements may include:

- Creating a process, material, device, product or service that increases overall knowledge or capability in a field of science or technology
- Appreciably improving an existing process, material, device, product or service, for example to save costs or reduce waste (this refers to genuine non-trivial improvements which go beyond minor or routine upgrades)
- Using science or technology to copy the effect of a current process, material, device, product or service in a new or improved way
- The advance must be non-trivial and recognised as a genuine improvement by a competent professional in the field.

Note: Advances in the arts, humanities, or social sciences (including economics) do not qualify.

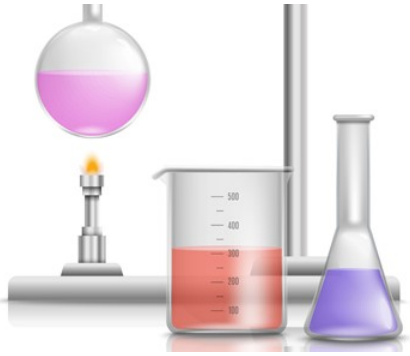
What projects qualify for R&D Relief

To qualify, a project must aim to achieve an advance in science or technology by resolving a scientific or technological uncertainty.

What is a scientific or technological uncertainty?

It exists when a competent professional cannot determine whether something is possible or how to achieve it, even with all available knowledge.

The solution must not be already known or obvious to others in the field.



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Demonstrating your efforts

You need to explain how your team tackled the uncertainty, including both successes and failures.

For example:

- Show that your work involved genuine problem-solving—not routine development.
- Describe why the uncertainty couldn't be easily resolved by a qualified professional, such as by highlighting failed attempts by others or gaps in existing knowledge.
- Having qualified professionals involved in your project strengthens your claim.

The merged R&D expenditure credit (RDEC)

The merged scheme is a taxable R&D expenditure credit available to companies that:

- are actively trading,
- are subject to Corporation Tax, and
- carry out projects that qualify as R&D.

This credit is considered trading income and is therefore subject to Corporation Tax.

Under the merged scheme, qualifying R&D expenditure is eligible for a 20% gross taxable expenditure credit. Note that different rates apply to ring-fenced trades.

The RDEC offers an above-the-line credit of 20% on eligible R&D costs. This credit can be used to offset Corporation Tax liabilities, and if the credit exceeds the tax due, the surplus may be paid to the company as a cash refund.

The effective amount of relief will depend on which rate the company pays tax at, ie 25%, 19% or the marginal 26.5% rate. If a company is paying Corporation Tax rate at the rate of 25%, it results in an effective net benefit of 15% of the R&D spend for companies paying Corporation Tax at 25% (20% above-the-line credit less the Corporation Tax rate). Similarly, the effective rate of relief will be 16.2% and 14.7% respectively for Corporation Tax payable at 19% and 26.5%.

Enhanced R&D intensive support credit (ERIS)

The ERIS scheme provides additional support for loss-making, R&D-intensive SMEs:

- They can deduct an extra 86% of their qualifying costs (in addition to the 100% deduction already included in their accounts), resulting in a total of 186% of qualifying costs being deductible when calculating their adjusted trading loss.
- They can also claim a payable tax credit, which is not taxable and can be worth up to 14.5% of the loss that is surrendered.

To claim under the ERIS, a company must also meet the intensity condition. This means that for accounting periods starting on or after 1 April 2024, at least 30% of total expenditure (including that of connected companies) must be on eligible R&D activities. This condition generally needs to be met for the same period the company is claiming for.

There are special rules that must usually be followed if your company is registered in Northern Ireland and claiming Enhanced R&D Intensive Support (NI ERIS). However, you can choose to opt out if you are an SME with a registered office in Northern Ireland and your business activities involve no trade in goods and no relevant activities in relation to the electricity market. To opt out, you must inform HMRC when you provide the additional information to support your R&D claim.

Companies that are not loss-making R&D-intensive SMEs will not qualify for the ERIS. However, profit-making SMEs or those whose R&D expenditure is below the 30% intensity condition may still be eligible to claim R&D relief through the merged RDEC scheme.

The merged scheme provides a single, simplified route to R&D tax relief for companies that do not meet the ERIS criteria, and it is available to both qualifying SMEs and large companies.

How do you claim the R&D relief?

For R&D tax relief purposes in the UK, the definition of an SME is based on criteria established by the European Commission. The following EU thresholds, which continue to apply for UK R&D purposes, help determine SME status for the merged scheme:

- Staff headcount: Fewer than 500 employees.
- Annual turnover: No more than €100 million.
- Balance sheet total: No more than €86 million

If a company exceeds any two of these thresholds, it is classified as a large company for R&D tax relief purposes.

Overseas contracted out expenditure

R&D tax relief is generally only available for activities carried out in the UK, unless it is wholly unreasonable to replicate the R&D domestically due to regulatory, environmental, or legal reasons. This applies to both externally provided workers (EPWs) and contracted-out R&D.

Claimable R&D costs

You can claim allowable costs related to direct R&D activities and qualifying indirect activities (supportive tasks that don't directly resolve the core R&D challenge)

Qualifying Indirect Activities include:

- Scientific and technical information services (e.g., preparing R&D reports)
- Maintenance of equipment or facilities used in R&D
- Security (if solely related to the R&D project)
- General administration and clerical work
- Finance and HR activities
- Maintaining R&D-specific equipment and computers
- Research by students/researchers at universities
- Supporting research (e.g. data collection for new testing or survey methods not considered R&D on their own)
- Feasibility studies to guide the R&D strategy

Since 1 April 2024, subsidised costs can be claimed under the merged scheme or enhanced R&D intensive support with no restrictions.

Submitting an R&D tax relief claim

Before a company can claim R&D tax relief or an R&D expenditure credit through its Company Tax Return, it must follow certain key steps to comply with HMRC's updated requirements.

These measures are designed to streamline the claims process and ensure that all essential information is provided upfront.

Companies claiming R&D relief for the first time, or who have not claimed in the previous three accounting periods, must submit a claim notification form within six months of the end of the accounting period—a formal notice to HMRC indicating their intention to claim R&D relief.

Since 8 August 2023, all claims must include an additional information form, which outlines detailed supporting evidence. This form must be completed accurately and submitted on time to avoid delays or rejections.

Summary action list

- New Scheme Structure: Since April 2024, the RDEC and SME schemes merged, with ERIS available for R&D-intensive, loss-making SMEs.
- Eligibility & Claims: Projects must aim for scientific/technological advances and meet strict documentation rules.
- Relief Scope & Limits: Relief covers UK-based R&D; overseas work is restricted unless exceptions apply.

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