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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD82500 - R&D tax reliefs: categories of qualifying expenditure: software

CTA09/Ss1125 & 1126

Expenditure which is not of a capital nature and is incurred on software employed directly in R&D is a category of qualifying expenditure for expenditure incurred on or after 1 April 2004. Software means computer software. The software must be used in activity that constitutes R&D for tax purposes, which includes ‘qualifying indirect activities’.

Use other than directly in R&D

Expenditure on software not employed directly in R&D is not qualifying expenditure.

Thus, software used by the human resources department would be included but only to the extent that the activity which it was used for was undertaken for R&D purposes (see paragraphs 31(b) and (c) of the DSIT Guidelines). But software used, for example, to train the HR staff would not.

Further guidance on the indirect aspects of R&D is given in the DSIT Guidelines ([CIRD81900](https://www.gov.uk/hmrc-internal-manuals/cird81900) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81900>) for the 2004 guidelines).

Apportionments

Where software is only partly employed in direct R&D an appropriate apportionment of the expenditure should be made.

How a suitable apportionment is to be achieved in practice depends on the specific facts of the R&D and the software.

Wherever possible a pragmatic approach should be adopted - for example, an apportionment based on staff numbers may prove most suitable where a particular software product is used by R&D and non-R&D staff.

If a company offers a reasonable apportionment basis HMRC do not envisage detailed enquiries being desirable to establish a slightly more accurate alternative.

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