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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD84200 - R&D tax relief: categories of qualifying expenditure: subcontracted activities

CTA09/Ss 1133 - 1136

The meaning of subcontracted activities is dealt with at [CIRD84250 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird84250\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird84250). The subcontracted R&D must be directly undertaken on behalf of the company, meaning that the subcontractor must do the work itself, not further subcontract it to a third

party, unless the parties are unconnected and the claim is made under the scheme.

The subcontracted expenditure that is within this category of qualifying expenditure is different for the SME scheme and the RDEC.

SME scheme

For an SME company, qualifying expenditure includes payments made to another person subcontracted to carry out activities that are part of the company's relevant R&D. [CIRD81400](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81400) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81400>) is R&D.

SME scheme: Payment to unconnected subcontractor

If the company and the subcontractor are not connected ([CIRD82150](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird82150) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird82150>)) the company can claim R&D tax relief on 65 per cent of the payment it makes to the subcontractor. The subcontractor does not have to do the work itself but can subcontract the work to a third party.

SME scheme: Payment to a connected subcontractor

The company can claim R&D tax relief on the lower of:

- the payment that it makes to the subcontractor, and
- the relevant expenditure of the subcontractor,

so long as the whole amount of the subcontract payment is brought into account in determining the subcontractor's profit in accounts drawn up under GAAP ending within 12 months of the end of the claimant company's accounting period for which the relief is claimed. If the subcontractor is not UK resident, the test we apply is that the subcontractor payment should be brought into account within 12 months of the claimant

company's accounting period in determining the subcontractor's profit under the equivalent of GAAP for its country of residence.

Relevant expenditure is neither capital nor subsidised and is incurred in carrying on the subcontracted activities. The expenditure must be on:

- staffing costs (See [CIRD83000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird83000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird83000>))
- externally provided workers (for expenditure incurred on or after 27 September 2003) (See [CIRD84000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird84000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird84000>))
- consumable stores (this ceased to be a category of qualifying expenditure for expenditure incurred on or after 1 April 2004 (See [CIRD82450](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird82450) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird82450>))
- consumable items ([CIRD82300](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird82300) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird82300>)) or software ([CIRD82500](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird82500) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird82500>)), (these are categories of qualifying expenditure incurred on or after 1 April 2004)
- subjects of clinical trials (for expenditure on or after 1 April 2006 for the RDEC scheme and 1 August 2006 for the SME Scheme)
- data licenses or cloud computing services for accounting periods beginning on or after 1 April 2023

SME scheme: Election to be treated as connected

The company and the subcontractor may jointly elect to be treated as if they are connected even though they are not connected. Such an election

applies to all payments under the same contract or arrangement and must be made by notice in writing given to an officer of the Board (in practice this would usually be the HMRC officer with responsibility for the principal's affairs) within 2 years of the end of the principal's accounting period in which the contract is made.

Research and Development Expenditure Credit - company contracting R&D to other persons

For a large company the expenditure on R&D contracted to other persons is generally not allowable. However, it can be qualifying expenditure if it is revenue expenditure on relevant R&D and the company contracts for work to be directly undertaken by:

- a qualifying body (see [CIRD82250](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird82250) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird82250>)), or
- an individual, or
- a partnership, each member of which is an individual

Note that the subcontractor payment rules at s1134 to 1136 CTA 2009 apply to Research and Development Expenditure Credit claims which are made by small and medium size enterprises where those enterprises have qualifying expenditure which is subsidised.

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