

Beta This part of GOV.UK is being rebuilt – [find out what beta means \(/help/beta\)](#)

HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
([/government/organisations/hm-revenue-customs](#))

Published 11 March 2016

Updated: 10 September 2025 - [See all updates](#)

[Back to contents](#) > [CIRD80000](#) > [CIRD81000](#)

CIRD81300 - R&D tax relief: conditions to be satisfied: the definition of R&D for tax purposes

In order that expenditure is treated as being on an R&D project, the project must satisfy certain statutory tests in accordance with published guidelines and legislation on the meaning of R&D. This is one of the more complex areas of the relief, and it is important to give this matter careful attention.

To arrive at the definition of R&D for the purposes of the legislation we look first to CTA10/S1138. This begins with those activities that are treated as R&D in accordance with GAAP. The relevant accounting standards that consider R&D expenditure are FRS102 s18, IAS38, FRS105 s13 and SSAP13 (see [CIRD99000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird99000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird99000>)).

ITA07/S1006 provides that the Treasury may issue regulations that supplement and modify the CTA10/S1138 definition. The regulations which have been made refer to guidelines issued by the Secretary of State. These are generally referred to as the BEIS Guidelines (formerly DTI Guidelines).

To qualify as R&D, activities must fall to be accounted for as R&D under GAAP, and under whichever standard, as R&D (see *BE Studios v Smith Williamson Ltd*, HC04C0110).

Following the Guidelines, then, for there to be R&D, a company must be undertaking a project to seek an advance in science or technology through the resolution of scientific or technological uncertainties.

The activities that constitute R&D for tax purposes are those activities undertaken as part of the project which fall to be accounted for as R&D (i.e. be capable of being accounted for as R&D, whether or not they are) under generally accepted accounting practice and also fall within the special definitions set out in the BEIS Guidelines (formerly DTI Guidelines) for activities to be treated either as 'directly contributing' to seeking the advance in science or technology, or as 'qualifying indirect activity'. The BEIS Guidelines (formerly DTI Guidelines) specifically exclude certain activities from the scope of R&D for tax purposes,

The advance being sought must constitute an advance in the overall knowledge or capability in a field of science or technology, not a company's own state of knowledge or capability alone.

Once the advance in science or technology has been articulated, the scope of the R&D project has been defined, and the project activities which fall within the definition of R&D for tax purposes have been identified, then the tax rules in CTA2009, described in this guidance, sets out what expenditure on those activities may be eligible for relief, and the conditions that must be satisfied for the expenditure to qualify for relief. The BEIS (formerly DTI) Guidelines specifically exclude certain activities from the scope of R&D for tax purposes.

The current (2004) guidelines ([CIRD81900](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81900) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81900>)) were issued on 5 March 2004 and came into force for accounting periods ending on or after 1 April 2004.

2004 BEIS (formerly DTI) guidelines

The reason for the publication of the 2004 guidelines was to make it easier to identify the relevant tests, thereby reducing the scope for disagreement based on misunderstanding or difficulty in using the old guidelines.

[Top of page](#)

Application of the BEIS Guidelines (formerly DTI Guidelines)

The BEIS Guidelines (formerly DTI Guidelines) are themselves based on SSAP13 principles, and while reference to the accountancy guidelines may be useful in understanding a company's approach, it is preferable to start from the BEIS Guidelines (formerly DTI Guidelines) in deciding whether the subject matter of expenditure is R&D for tax purposes. SSAP13 alone is not adequate for these purposes.

It is important to note that the BEIS Guidelines (formerly DTI Guidelines) provide a definition of R&D for a variety of tax purposes, not just for the purposes of R&D tax relief. And carrying out qualifying R&D is only one part of the relevant tests that need to be satisfied. So even if expenditure qualifies as being on R&D within the guidelines it still needs to meet the conditions in the SME or large company scheme.

There may well be an important difference between a project for the development of a commercial product and an R&D project within the meaning of the legislation. A company with a project to produce a new product will often consider the whole project to be R&D. But this is not necessarily correct for the purposes of R&D tax relief. The activities that constitute R&D for tax purposes are those activities undertaken as part of the project which fall to be accounted for as R&D under generally accepted accounting practice and also fall within the special definitions set out in the BEIS Guidelines (formerly DTI Guidelines) for activities to be treated as either 'directly contributing' to seeking the advance in science or technology, or as 'qualifying indirect activity'.

Other aspects of the project will not be R&D for tax purposes, either because they are not seeking an advance in science or technology or because the activities fall outside the scope of R&D for tax purposes. For example, the BEIS Guidelines (formerly DTI Guidelines) specifically exclude certain activities from the scope of R&D for tax purposes,

The fact that there is some advance in science or technology being sought within the project for the development of a new product does not make the whole of that project an R&D project for the purposes of the relief. So, for example, market research to identify the demand for the new product is not part of the R&D. A project for the development of a new product, that is not of itself R&D, may contain elements or sub- projects that can be R&D projects for the purposes of the relief. It is those elements or sub- projects undertaken

with an aim to extend knowledge in a field of science or technology to which the relief applies. The sector in which activity is taking place does not change this.

An R&D project can contain a number of sub-projects, but you should consider the advance in science or technology being sought in identifying the scope of the project for the purposes of R&D tax relief. (How the company structures or sub-divides the project is not relevant.).

The meaning of 'R&D project' is dealt with at paragraph 19 of the 2004 BEIS Guidelines (formerly DTI Guidelines).

[Top of page](#)

Other issues arising from the guidelines

Competent professional

The expression 'competent professional working in the field' has not been defined as the natural meaning is considered to be self-explanatory. In respect of their field of expertise one would expect such a person to:

- be knowledgeable about the relevant scientific and technological principles involved,
- be aware of the current state of knowledge, and
- have accumulated experience and be recognised as having a successful track record.
- Simply having worked in a field or having an intelligent interest in it does not, by itself, make a person a competent professional.
- There may be differences of opinion between competent professionals in a particular field. Where the view taken is a legitimate one, and it has been reached by a competent professional properly exercising their expert judgement then it should normally be accepted.

To enable an opinion to be properly assessed as to its contents and reasoning, an opinion offered by the company as being that of a competent professional would need to explain clearly, without the use of jargon, what the advance in science or technology being sought is, and why it is an advance in the overall knowledge or capability in a field of science or technology, rather than just in the company's own state of knowledge or capability, and so should objectively review the current state of knowledge, and the work carried out. A simple assertion as to the R&D nature of the project is unlikely to be satisfactory.

While due weight will be given to an opinion offered by the company's competent professional as to whether there is an advance in science or technology being sought, it will not necessarily be conclusive of the issue, and further enquiry may still be needed.

Judicial guidance

There is guidance on the meaning of R & D for tax purposes in *BE Studios v Smith Williamson Ltd* (the case number at the High Court is HC04C0110).

BE Studios had a project to produce new software. Mr. Justice Evans-Lombe accepted that it was not sufficient that the claimant's products were innovative or cutting edge for them to be R&D within the meaning of the statute. The fundamental test was whether the software work sought to achieve a scientific and or technological advance, and formed the whole or part of a project to resolve scientific and or technological uncertainty on a systematic basis.

On the subject of computer games, he indicated that there were a number of stages in the production of a computer game. These involved conception or acquisition of the ideas for the game, planning, script-writing, drawing and designing backgrounds and characters, creating animated sequences and soundtrack and

programming the result of these. He said ‘none of these activities without more necessarily involve qualifying R&D’.

He was presented with an extensive description of the company’s objectives in terms of new functionality and computer environments, but said that this nowhere described any new scientific or technological knowledge. The judge found that there was no evidence presented that supported the claim that R&D within the BEIS Guidelines (formerly DTI Guidelines) had been carried out.

Application to particular trades

In some fields there are particular difficulties in determining whether a project is R&D for the purposes of the relief. We have published specific guidance on two fields:

- Pharmaceuticals [CIRD81920](https://www.gov.uk/hmrc-internal-manuals/cird81920) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81920>), and
- Software [CIRD81960](https://www.gov.uk/hmrc-internal-manuals/cird81960) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81960>)

← **Previous page**
(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81220)

→ **Next page**
(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81350)



OGI

All content is available under the Open Government Licence v3.0, except where otherwise stated



© Crown copyright