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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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CIRD89790 - R&D Tax reliefs: R&D expenditure credit (RDEC) scheme: restriction of total expenditure on R&D workers' PAYE and NIC

Chapter 6A CTA 2009 S104P

Restriction of total expenditure on R&D workers' PAYE and NIC

The above is the company's staffing costs that consist of PAYE and NIC liabilities in respect of:

1. the employees of the company who are engaged on R&D activity and;
2. any externally provided workers who are provided to the company by another connected group company for the purposes of qualifying R&D of the claimant.

In calculating the company's own staffing costs no restriction is made to the part of the company's PAYE and NIC liabilities for the accounting period for staff engaged only partly on qualifying R&D activity, see [CIRD89800 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89800\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89800). So if a staff member appears in the R&D claim relating to qualifying direct or indirect activity then their full PAYE and NIC is included with no restriction to omit the part that relates to non-qualifying R&D activity.

The externally provided workers figure is identified by calculating the appropriate percentage of expenditure on staff costs incurred by the relevant group company in providing the workers to the claimant company and which forms part of the company's PAYE and NIC liabilities for the accounting period.

A formula of $R \text{ over } T \times 100$ is used to calculate the "appropriate percentage" where

- R is the amount of the company's qualifying expenditure on the externally provide worker that has been taken into account in calculating the amount of the company's qualifying R&D expenditure for the period, and
- T is the total amount of the company's qualifying expenditure on the externally provided worker.

Staffing costs include those relating to any qualifying indirect activities included in the R&D claim

Example

An individual employee's PAYE and NIC amounts to £10k but they spend only 50% of their time on

qualifying R&D activity. £10k is included in calculating the cap with no restriction for non-qualifying activity

Example

An externally provided worker (EPW) PAYE and NIC amounts to £10k. They spend 50% of their time of qualifying activity so the 'appropriate percentage' is 50%. The amount to be included in the cap is £5k

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