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HMRC internal manual

Corporate Intangibles Research and Development Manual

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

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

CIRD80200 - R&D tax relief: background

Historically, UK spending on R&D, as a proportion of Gross Domestic Product, has lagged behind that of many other countries. R&D suffers from a market failure – a positive externality, whereby a company doing R&D does not receive the full benefit of that expenditure, because other persons also benefit. The amount of R&D done overall is therefore less than is optimal. The Government, as part of its agenda to build a modern knowledge based economy, and improve productivity, therefore supports R&D by providing additional tax relief.

There are two R&D tax reliefs:

- Small or Medium Enterprise (SME) Tax relief
- Research and Development Tax Credit (RDEC).

A general overview of R&D tax relief and a comparison of the reliefs is at [CIRD80250](https://www.gov.uk/hmrc-internal-manuals/cird80250) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird80250>).

Because the SME relief is targeted at a particular class of companies, it still has to come within the EU rules on State aid ([CIRD81670](https://www.gov.uk/hmrc-internal-manuals/cird81670) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81670>)) .

There is more detailed guidance on what is meant by an SME at [CIRD91000](https://www.gov.uk/hmrc-internal-manuals/cird91000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird91000>) onwards.

← **Previous page**
(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird80150)

→ **Next page**
(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird80250)



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