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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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## CIRD81700 - R&D tax relief: conditions to be satisfied: capital expenditure

CTA09/Ss 53; 1044(5), 1063(4), 1068(4) & 1074(7)

To be eligible as qualifying R&D expenditure, expenditure must be allowable as a deduction in calculating the profits of the trade. Capital expenditure is therefore excluded; it may however qualify for R&D allowances (see [CA60000](#) (<https://www.gov.uk/hmrc-internal-manuals/capital-allowances-manual/ca60000>) onwards). The

accounts treatment (involving either recognition of an asset on the balance sheet or the write off of expenditure immediately to the profit and loss account) is not conclusive of whether the expenditure is revenue or capital for tax purposes. Expenditure that is revenue expenditure for tax purposes but is capitalised for accounting purposes is dealt with at [CIRD81450](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81450) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81450>).

The guidance at [BIM35000](https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim35000) (<https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim35000>) onwards considers whether expenditure in the course of a trade is capital expenditure. In particular consideration is given to the question of whether in-house development of software is capital at [BIM35800](https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim35800) (<https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim35800>) onwards.

The same considerations apply broadly for R&D tax relief, but an important consideration is that many of the companies claiming R&D tax relief will be either in a pre-trading stage or in the early stages of trading. When considering whether expenditure is capital for a company in this position one must bear in mind the future activities of the company, (CTA09/S1042).

This is particularly in point when R&D tax relief is claimed by SMEs in the pre-trading stage, or prior to a development in the trade. For that reason, while the principles of capital expenditure still need to be considered, we would not normally wish HMRC officers to pursue arguments in grey areas where the facts do not clearly support a characterisation of expenditure as capital.

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