

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](#)

CIRD81650 - R&D tax relief: conditions to be satisfied: subsidies (SME scheme only)

[CTA09/Ss1052\(6\), 1053\(5\) and 1138 - SME scheme only](#)

R&D tax reliefs under the SME scheme are not available for expenditure that is subsidised. If the only reason that the expenditure does not qualify for SME scheme R&D tax relief is that the expenditure is subsidised, then, for accounting periods beginning on or after 9 April 2003, an SME

can make a claim for relief under the large company scheme ([CIRD89000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89000>)) or since 1 April 2013, for the RDEC where all conditions are met.

Subsidised expenditure

The guidance on this page has been amended to reflect HMRC's view following recent First-tier Tribunal decisions.

Where a project has received **any** funding which is a notified State Aid ([CIRD81670](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81670) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81670>)) then no expenditure on that project can qualify for the R&D tax relief under the SME scheme. The legislation defining “subsidised expenditure” provides that if a grant or subsidy is received which is not notified State Aid, the expenditure is subsidised to the extent that it does not exceed the subsidy. This may result in the expenditure qualifying for R&D tax relief partly under the SME scheme and partly under the large company scheme or RDEC.

A notified State Aid, grant, subsidy or payment that is not provided for particular expenditure should be allocated according to the underlying facts.

The legislation separately provides that expenditure is also subsidised to the extent that it has been met, directly or indirectly by any other person. So expenditure may be “subsidised expenditure” even though the payments are not, for example, a grant or subsidy paid by a public body. In this case, expenditure is only subsidised to the extent that any payment received meets that expenditure.

It is important to remember that the restrictions on a company claiming SME relief in respect of activities contracted to it or its subsidised expenditure are derived from separate

subsections in the legislation and therefore considered independently based on the facts.

Depending on the facts, where R&D activities are contracted to the company ([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 expenditure may be subsidised to the extent that it is met by the principal. This will apply whether the payment is made directly between the parties or routed through third-parties.

However, where the R&D activities are not contracted to the company, payments received from the principal are not considered to subsidise the company's R&D activities unless the payment is specifically linked to those activities.

This is not an exhaustive list, but HMRC considers the following to be subsidised expenditure: -

- The funding is related to the R&D expenditure, but the company provides nothing in return or provides something which does not represent a commercial return to the funder.
- There is a clear link between the provision of those funds and the expenditure incurred on the R&D project. This would include situations where, for example, funding is routed via connected or third parties.

Again, this is not an exhaustive list, but, HMRC does not consider the following to be subsidised expenditure: -

- Where a company carries out R&D on its own account and subsequently sells goods or services developed as a result of that R&D, receipts from those sales will not be considered to meet the expenditure incurred on the R&D.
- Where a company carries out R&D on its own account, receipts from the sale of goods or services which existed prior to the R&D being undertaken will not be considered to meet expenditure incurred on the R&D.

- Where a company obtains finance on commercial terms this will not be considered to meet the company's expenditure.
- Where a company receives payment under a contract but the R&D activities were not contracted to the company.

Example of last point above

- Company A is a building company.
- Company B, an accountancy firm, has an office building and has engaged Company A to replace the roof.
- The contract is in a standard form and specifies only standard requirements such as style and the materials to be used.
- While the roof is being fitted, Company A decides to undertake R&D in order to try to use modern fittings in an old building.
- Company A undertakes the R&D and successfully fits the roof.

Company A's R&D activities are not contracted to it by another person ([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>) example 1).

Company B makes payments to Company A which cover all expenditure incurred in carrying out the contract, including the spend on R&D.

Company A's R&D expenditure is not subsidised because the expenditure was an incidental part of the delivery of the project and Company B did not undertake to specifically reimburse such expenditure under the terms of the contract.

COVID-19 Government support

See CIRD 83200 for information about the Coronavirus Job Retention Scheme and the Coronavirus Statutory Sick Pay Rebate Schemes

- Coronavirus Business Interruption Loan Scheme
- Coronavirus Large Business Loan Scheme
- Bounce Back Loans

The three schemes shown above are all notified State aid, meaning that S1138(1)(a) CTA 2009 could potentially prevent a claim for SME relief. HMRC would only expect this to happen where the loan relates specifically to the company's expenditure incurred on an R&D project rather than providing general support for the company;

- Future Fund

The loans provided through the Future Fund scheme are not notified State aid. They are not caught by s1138 CTA 2009 and need not be considered when looking at the State aid cumulation rules.

- Recovery Loan Scheme

The Recovery Loan Scheme, was announced on 3 March 2021. In most situations HMRC do not consider that the receipt of these loans will have any effect on subsequent claims for Research and Development Expenditure Credit or for subsequent claims for the Small and Medium Size Enterprise Research and Development Relief. However, because the scheme is a notified State Aid, if a company's R&D activities fall within the Northern Ireland Protocol there is a possibility that s1138(1)(a) will be in point. Where a company's R&D activities fall within the Northern Ireland Protocol and the loan was obtained for, or used to fund, any element of those activities, a claim for Small and Medium Size Enterprise Research and Development Relief cannot be made because the expenditure has been subsidised and s1138(1)(a) applies.



OGI

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



© Crown copyright