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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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Published 11 March 2016

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

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

CIRD80150 - R&D tax relief: introduction: overview

This is the introduction to the R&D tax relief section of the manual.

The material in the introduction is designed to give an overview of the relief and to advise, in outline, on important considerations when submitting a claim; for specific information you should refer to the relevant detailed part of the guidance.

Outline

Research and Development (R&D) tax relief (or credit) is a company tax relief that can either reduce a company's tax bill or, for some small or medium sized (SME) companies, provide a cash sum. It is based on the company's expenditure on R&D.

For there to be R&D for the purpose of the tax relief, a company must be carrying on a project that seeks an advance in science or technology. It is necessary to be able to state what the intended advance is, and to show how, through the resolution of scientific or technological uncertainty, the project seeks to achieve this.

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 (i.e. be capable of being accounted for as R&D , whether or not they are) 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 to be treated as 'qualifying indirect activity'. The BEIS Guidelines (formerly DTI Guidelines) specifically exclude certain activities from the scope of R&D for tax purposes.

Not all activity which may be considered to be R&D within the ordinary accountancy or commercial meaning of the term will necessarily be R&D for tax purposes. While the accountancy meaning is where the definition begins for the purposes of the relief, it is qualified by guidelines issued by the BEIS (formerly DTI Guidelines) - see [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).

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.

There are two schemes depending on whether the R&D is carried out by a company that is an SME or any company other than an SME (a large company). In certain circumstances an SME may be able to make a claim under the RDEC scheme where the conditions for the SME scheme are not fulfilled.

The R&D tax credit works by allowing companies an increased, or enhanced, deduction in respect of qualifying expenditure on R&D activities. The enhanced deduction either reduces the company's profit, or increases its losses, for tax purposes if certain conditions are satisfied.

SMEs may be able to claim payable tax credits in cash from HMRC if they have losses in the accounting period but the enhanced relief must be surrendered in order to receive this payment.

[Top of page](#)

Amount of relief

For expenditure incurred up to and including 31 July 2008 SMEs could deduct 150% in respect of their qualifying R&D expenditure and the payable tax credit could amount to £24 for every £100 of actual R&D expenditure. For expenditure incurred on or after 1 August 2008 SMEs could deduct 175% in respect of their qualifying R&D expenditure and the payable tax credit could amount to £24.50 for every £100 of actual R&D expenditure. The rate was further increased from 1 April 2011 to 200% with a payable credit of £25 for every £100 of spend. The rate of relief further

increased from 1 April 2012 to 225%. From 1 April 2014 the rate of R&D payable tax credit for loss-making SMEs increased from 11% to 14.5%. From 1 April 2015 SMEs can deduct 230% in respect of their qualifying expenditure and the payable credit can amount to £33.35 for every £100 of actual R&D expenditure.

Large companies could deduct 125% in respect of qualifying expenditure incurred up to and including 31 March 2008 and could deduct 130% thereafter. Finance Act 2013 introduced a stand-alone credit to be brought into account as a receipt in calculating the profits of large companies for research and development (R&D) expenditure incurred on or after 1 April 2013 known as the Research and Development expenditure credit (RDEC). RDEC and the large company super deduction scheme co-existed until 31 March 2016. The existing large company scheme rules and benefits remained unchanged until it ceased in April 2016. After this date the large company scheme only continued for expenditure incurred prior to that date until such expenditure is treated as deductible in a CT computation (para 28 Sch 15 FA2013). Once a company claimed RDEC for the first time, it effectively elected into RDEC and the election was irrevocable.

→ **Next page**

(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird80200)



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