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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**

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CIRD80530 - R&D tax relief: examining a claim: risks

In examining returns that contain claims to R&D tax relief or payable tax credits it is still necessary to carry out a risk assessment process. There are some risk factors that are of particular relevance when considering the R&D claim whether made in a return or otherwise:

- If there is no analysis of how the relief shown has been arrived at it is harder to be sure whether it is correct. It may include arithmetic or typographic errors, fail to meet the qualifying

conditions (CIRD81000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81000)), or it may be subject to some common errors CIRD80540 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird80540).

- The nature of the trade may mean it is more important to consider whether the activity constitutes qualifying R&D. In some cases it will be less obvious how scientific or technological uncertainty would be involved in projects that would be relevant to a particular trade. This depends on the meaning of R&D for the purposes of the relief CIRD81300 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81300) and the requirement that it must be relevant to the trade CIRD81400 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81400). Where the project is seeking an advance in the field of the arts, humanities or social sciences (including economics), it will not come within the definition of science, and so it will be necessary to examine the means of pursuing it to see if it incorporates a scientific or technological advance within the R&D definition.

- The solvency position of the company may make it difficult to recover money paid out or owed as a result of incorrect claims. This is of particular relevance where a payable tax credit is being claimed CIRD90500 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird90500).

- The project may not be qualifying R&D even if it is so classified by the accountant when drawing up the company accounts. For tax purposes the meaning of R&D is taken from the BEIS Guidelines (formerly DTI Guidelines) (CIRD81300 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81300)). For accountancy purposes a wider range of expenditure can be

included as R&D than is the case for the purposes of the R&D tax relief.

- The absence of an R&D disclosure in the accounts should not be taken as necessarily meaning there is an absence of R&D activities. The requirement is that the activities fall to be accounted for as R&D, whether or not they are actually disclosed as such.

Please remember that your linked Audit Specialist may be able to assist in the verification of R&D claims, specifically to check the basis of the figures and the methodology used in making the claim. Audit Specialists have also worked with companies prior to submission of claims, to assist in the identification and allocation of R&D expenditure, resulting in an improvement in the accuracy of claims. Audit Specialists work in this area has in the past, resulted in significant savings in Tax Specialist resource.

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