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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](#)

[Back to contents](#) > [CIRD75000](#)

CIRD75200 - VRR: qualifying expenditure: for an accounting period FA02/SCH13/PARA2

There are three types of qualifying expenditure:

- on direct R&D [CIRD75300](#)
(<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird75300>),
- on sub-contracted R&D [CIRD75400](#)
(<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird75400>)

[intangibles-research-and-development-manual/cird75400](#)), and

- on contributions to independent R&D [CIRD75500 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird75500\)](#).

VRR is based on qualifying expenditure for an accounting period.

There are different definitions of qualifying expenditure on direct or sub-contracted R&D for an accounting period for SMEs and large companies.

For an SME expenditure is qualifying expenditure on direct or sub-contracted R&D for an accounting period if:

- it can be deducted in computing trading profits for that period, or
- where the expenditure is pre-trading expenditure, that expenditure would be deductible if the company was trading. Pre-trading expenditure is normally treated as incurred on the day that trading starts. Ignore this rule when you decide whether pre-trading expenditure is qualifying expenditure for an accounting period. If the company could have deducted pre-trading expenditure if it had been trading when the pre-trading expenditure was incurred, the pre-trading expenditure is qualifying expenditure for the accounting period in which it is actually incurred.

For a large company expenditure is qualifying expenditure on direct or sub-contracted R&D for an accounting period if it can be deducted in computing trading profits for that period.

This means that SMEs can claim VRR on pre-trading expenditure when it is incurred but large companies have to wait until the trade begins.

Expenditure on contributions to independent R&D is qualifying expenditure on contributions to

independent R&D for an accounting period if it is incurred in that accounting period. As a result of changes introduced by FA 2008 expenditure incurred on or after 1 August 2008 on contributions to independent R&D will no longer qualify for VRR.

← **Previous page**

(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird75100)

→ **Next page**

(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird75300)



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