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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](#)

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## CIRD99050 - R&D tax relief: accountancy: overview

### Link with accountancy

CTA09/S46 (previously FA04/S50) specifies that the starting point for calculating taxable profits is accounts drawn up in accordance with GAAP. GAAP is defined so as to include accounts drawn up in accordance with either UK GAAP or IAS. (IAS is included in this definition for accounting periods beginning on or after 1 January 2005.)

The relevant accounting standards that deal with R&D are FRS102 s18 ([CIRD99150](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird99150) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird99150>)), IAS38 ([CIRD99200](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird99200) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird99200>)), FRS105 s13 [CIRD99255](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird99255) and SSAP13 ([CIRD99100](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird99100) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird99100>)). It is beyond the scope of this manual to advise on the detail of these standards, and if accountancy advice is required it should be sought through the tax officer from an HMRC advisory accountant.

To qualify as R&D, an activity must both 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 BIS Guidelines (formerly DTI Guidelines) for activities to be treated either as ‘directly contributing’ to seeking the advance in science or technology, or as ‘qualifying indirect activity’ ([CIRD81300](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81300) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81300>)). This is because the current DTI guidelines do not extend the definition of R&D to anything that would be excluded by the accountancy definition.

There is however no requirement for the company to make a disclosure in its accounts in order to make a claim

## Introduction of IAS

It is a legal requirement that the consolidated accounts of listed companies are prepared in accordance with IAS for accounting periods beginning after 1 January 2005. There is an option for other accounts to be prepared on this basis also. Until the inclusion of IAS within the definition of GAAP, we followed the UK GAAP accounting treatment to decide when expenditure was

deductible in calculating the taxable profit for the purposes of the R&D tax relief. So expenditure was treated as deductible in calculating the taxable profit when it was correctly charged to the profit and loss account in accordance with UK GAAP.

IAS introduced different rules for recognising development expenditure on the balance sheet. Significant amounts of expenditure, which we would accept as revenue for tax purposes, might have to be taken to the balance sheet and be released over the period of expected economic benefits arising from the development.

In order to avoid the adoption of IAS resulting in a delaying of the availability of R&D tax relief we introduced special rules to allow R&D expenditure when it was incurred ([CIRD81450](https://www.gov.uk/hmrc-internal-manuals/cird81450) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81450>)).

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