

The Research and Development Expenditure Credit Scheme



R&D Tax Relief for large companies and SMEs with grant funded projects for accounting periods beginning before 1 April 2024.

R&D tax relief has undergone a significant overhaul in recent years. This factsheet covers the R&D Expenditure Credit (RDEC) Scheme as it exists for accounting periods beginning before 1 April 2024. You may also be aware of the SME scheme, which is covered under a separate factsheet.

For accounting periods beginning on or after 1 April 2024, these existing R&D schemes will be superseded by:

1. The Enhanced R&D Intensive Support (ERIS) scheme for R&D intensive SMEs
2. The merged scheme R&D expenditure credit (new RDEC)

Tax relief under the ERIS scheme and new RDEC scheme is covered under separate factsheets.

Research and development for tax purposes

Research and development for tax purposes takes places when a project seeks an advance in knowledge or capability in a field of science or technology. The project must aim to achieve an advance in the field – not just for the company – although if a particular advance has already been made, but it is a trade secret, work to achieve that advance can still qualify for R&D relief. Only activities that directly contribute to this advance through the resolution of scientific or technological uncertainty are classified as R&D.

The RDEC scheme

The RDEC Scheme is available to companies which do not qualify for the SME scheme. This can be due to their size, or because they have been subcontracted to do R&D by a large company, or because their project is grant funded or otherwise subsidised.

The RDEC scheme works by allowing a company to claim a taxable credit (the RDEC) at 20% (previously 13% for expenditure prior to 1 April 2023) of certain expenditure.

The RDEC is first used to pay the corporation tax liability of the company. If the RDEC is higher than the company's corporation tax liability, a proportion

of the credit may be paid to the company in cash, with the balance carried forward to offset against the company's future tax liabilities.

The RDEC payable to the company in any period is capped at the PAYE and NIC that the company has paid to HMRC for R&D staff in that period.

There is no restriction to the RDEC in respect of grant funding received.



Example 1

A loss-making company, with qualifying expenditure of £200,000 for the year ended 31 March 2024, could receive a RDEC of £30,000.



Example 2

A profitable company, paying tax at the main rate (25%), with qualifying expenditure of £200,000 for the year ended 31 March 2024, could save corporation tax under the RDEC scheme of £30,000.

Which costs qualify for R&D relief?

Qualifying expenditure is revenue expenditure (whether expensed or capitalised as an intangible asset) on R&D in the following areas:

Staffing costs: Salary costs, employer's National Insurance contributions and employer's pension contributions.



Externally provided R&D workers



Consumable items: Actual physical materials that are consumed in R&D



Water, fuel and power used directly in carrying out R&D.



Software used in R&D.



Data licensing and cloud computing costs.



Contracted out R&D

Where it is contracted out to a qualifying body, for example a university, or an individual, or a partnership, each member of which is an individual.



Contributions to independent research made to a qualifying body, an individual, or a partnership, each member of which is an individual.



Clinical trial volunteers: Any payments made to them as part of the R&D project



Accounting for the RDEC

The RDEC Scheme was designed to increase the visibility of R&D relief. The RDEC is generally accounted for as grant income or other income, i.e. above "profit before tax" and therefore enhances the profits before tax figure.

HMRC scrutiny

HMRC are currently checking more than 20% of R&D claims, up from less than 1% a few years ago. Any R&D claim made is therefore at moderate risk of HMRC enquiry. An HMRC enquiry can be both expensive and time consuming, diverting your resources away from where they are really needed within your company.

We can help you to prepare a robust claim and support you through any HMRC enquiry.

Our team of specialist advisors

We recognise how important R&D relief can be for your company, and we are here to help and support you. For further information on R&D relief, please contact one of our specialist advisors using the contact details below:



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