Research and Development Tax Relief – the new R&D expenditure credit scheme

The new R&D expenditure credit scheme is a corporation tax relief designed to support companies pushing the boundaries of science and technology. It can reduce a company's corporation tax liability or entitle a company to receive a cash tax credit.

R&D tax relief has undergone a significant overhaul in recent years. For accounting periods beginning on or after 1 April 2024 there are two R&D tax relief schemes:

1. Enhanced R&D intensive support (ERIS) relief for loss-making small and medium sized companies (SMEs)

2. The merged scheme R&D expenditure credit (new RDEC)

This factsheet covers tax relief under the new RDEC scheme.

You may be aware of the old SME Scheme and the old RDEC scheme. These schemes are still used for accounting periods beginning before 1 April 2024, and are covered on separate factsheets, as is ERIS.

Research and development for tax purposes

Research and development for tax purposes takes place 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 new RDEC scheme

The new RDEC scheme is available to companies which do not qualify for ERIS. To qualify for ERIS, a company must be loss making, meet certain size criteria and be R&D intensive. Broadly, a company is R&D intensive where 30% of expenditure of both the company and its connected companies is on R&D.

Most eligible companies will fall into the new RDEC scheme as opposed to qualifying for ERIS.

The new RDEC scheme works by allowing a company to claim a taxable credit (the RDEC) at 20% of certain (referred to as "qualifying") 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 tax benefit

The potential cash benefit of the merged scheme RDEC depends on the taxable profit or loss of the company:

Example 1

A loss-making company, with qualifying expenditure of £100,000 for the year ended 31 March 2025, could receive an RDEC in cash of £16,200 – a cash benefit at 16.2% of qualifying expenditure.

Example 2

A profitable company, paying corporation tax at the main rate (25%), with qualifying expenditure of £100,000 for the year ended 31 March 2025 could save corporation tax under the RDEC scheme of £15,000 – a cash benefit at 15% of qualifying expenditure.

The RDEC payable to the company in any period is capped at £20,000 plus three times the company's PAYE and NIC liability for the period.

Qualifying R&D expenditure

Qualifying R&D 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 (externally provided workers must be paid through a UK payroll, with very limited exceptions)

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.

R&D subcontracted to third parties where the company intends that the subcontractor will undertake R&D, and the R&D is undertaken in the UK (with very limited exceptions).

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

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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