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What is research and development and which costs qualify? Updated 13.12.22

What is the meaning of R&D for tax purposes?

For the purpose of tax reliefs, Research and Development (R&D) takes place when a project seeks to achieve an advance in science or technology. The activities that directly contribute to achieving this advance in science or technology through the resolution of scientific or technological uncertainty, are qualifying R&D. Certain indirect activities related to the project are also R&D. However activities which do not directly contribute to the resolution of the project's scientific or technological uncertainty are not R&D.

What is an advance in science or technology?

An advance in science or technology means an advance in overall knowledge or capability not just a company's own state of knowledge or capability alone. This includes the adaptation of knowledge or capability from another field in order to make such an advance where this adaptation was not readily deducible.

Examples of qualifying advances include projects which extend overall knowledge or capability; or create a process, material, device, product or service which incorporates or represents an increase in overall knowledge or capability; or make an appreciable improvement to an existing process, material, device, product or service through scientific or technological changes; or use science or technology to duplicate the effect of an existing process, material, device, product or service in a new or appreciably improved way.

Routine analysis, copying or adaptation of an existing product, process, service or material, will not be an advance in science or technology.

What is scientific or technological uncertainty?

Scientific or technological uncertainty exists when knowledge of whether something is scientifically possible or technologically feasible, or how to achieve it in practice, is not readily available or deducible by a competent professional working in the field. This includes system uncertainty.

Scientific or technological uncertainty will often arise from turning something that has already been established as scientifically feasible into a cost-effective, reliable and reproducible process, material, device, product or service.

Uncertainties that can readily be resolved by a competent professional working in the field are not scientific or technological uncertainties. Similarly, improvements, optimisations and fine-tuning which do not materially affect the underlying science or technology do not constitute work to resolve scientific or technological uncertainty.

Most qualifying software projects will be intended to result in a product to be either used in house, licensed or sold. However that is not to say that all costs of development of commercial products will qualify in their entirety. Only the costs incurred in reaching the resolution of technological uncertainties will qualify. Subsequent costs incurred in generating a marketable product may not qualify.

Are you undertaking qualifying R&D?

If you have developed or are in the process of developing a new or appreciably improved product, process, or software system and are having to overcome scientific or technology challenges in the process, then your company may qualify for this valuable benefit.

Key indicators of qualifying R&D activity:

- Do you employ scientists, engineers, software developers or technicians?
- Have you developed a new product?
- Have you appreciably improved an existing product?
- Have you improved an existing manufacturing process?
- Have you conducted in-house R&D?
- Have you developed software in-house?
- Are you a small or medium-sized enterprise (SME) that has subcontracted out any of the above?

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For the purpose of tax reliefs, research and development (R&D) takes place when a project seeks to achieve an advance in science or technology.

Need help?

For help and advice on any of the matters raised in this guide, please call us and talk to one of our friendly experts.

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Which costs qualify?

Categories of qualifying expenditure for the enhanced revenue deductions include:

- Staffing costs
- Externally provided workers (UK only from April 2023)
- Software
- Consumable materials
- Clinical trial volunteers
- Data Licenses (From April 2023)
- Cloud computing (From April 2023)

Staffing costs are often the largest category of qualifying expenditure and include all associated costs with employment of persons directly and actively engaged in the R&D activities, including salaries, bonuses, employer's national insurance and pension contributions.

Where individuals spend only a proportion of their working time on R&D activities, the appropriate proportion of their employment costs may be claimed.

SME's carrying out research and development (R&D) are able to claim 65% of the costs paid to any subcontractor for qualifying activities. From April 2023 the work undertaken by the subcontractor has to be in the UK unless it would be unreasonable to do so.

Any expenditure incurred by the company on capital equipment (such as plant and machinery) will not qualify for the enhanced revenue deductions mentioned above.

However this expenditure may qualify for 100% capital allowances in the period of acquisition.

If your company undertakes development activities, it may benefit from a qualifying development activity.

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