

Future-Proofing Growth with R&D Tax Relief

A Guide for Life Sciences
Startups and Scale-Ups



Now, for tomorrow

A Guide for Life Sciences Startups and Scale-Ups

Innovation drives the life sciences sector, but funding it can be challenging. Tax incentives, including R&D credits and the new R&D Intensive Scheme, can help your company invest in science and technology while preserving cash flow.

This guide explores how startups and scale-ups can make the most of available reliefs.

We cover practical, actionable topics, including:

1

Understanding what qualifies as R&D.

2

Combining grants and tax credits effectively.

3

Planning for the new Enhanced R&D Intensive Scheme (ERIS).

4

Leveraging the Patent Box for long-term efficiency.

Each article offers insights from our tax experts, helping you avoid common pitfalls, extend your funding runway, and set your business up for sustainable growth.

If your company is driving innovation, smart use of R&D tax reliefs can unlock cash to reinvest in your most ambitious projects. Explore the series and discover how our expertise can help your business grow.



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Fuelling Growth Through R&D

For life sciences startups, research and development (R&D) is more than a technical process, it's the engine of innovation and a cornerstone of growth. But what qualifies as R&D in the eyes of HMRC, and why does it matter for your business?

What Qualifies as R&D?

R&D refers to systematic activities undertaken to innovate. These projects can take many different forms and vary widely by industry and field.

For life sciences startups, examples include:

- 1 Developing new diagnostic tools.
- 2 Experimenting with novel drug formulations.
- 3 Improving lab-based manufacturing processes.

These are just examples—R&D can encompass a much broader range of activities and projects. Even projects that don't succeed may qualify, as long as they aim to resolve scientific or technical uncertainty.

Why This Matters

Understanding what counts as R&D (and which costs are eligible) can unlock tax credits returning up to 27% of eligible expenditure, significantly extending your cash runway. The UK government incentivises innovation through R&D tax credits, helping startups fund and accelerate product development. Early awareness allows founders to plan better, document properly, and maximise claims.

Combining Grants & R&D Tax Credits

Many startups often assume that receiving a grant automatically disqualifies them from claiming R&D tax credits. That's a common misconception. With careful planning, you can access both.

Key Considerations

- 1** Grant funding generally precludes SME R&D tax relief claims for the same project; however, it may still be possible to claim on the expenditure under the slightly less generous RDEC or the new Merged ('New RDEC') schemes.
- 2** SME scheme: up to 27% of eligible spend.
- 3** RDEC and Merged Schemes: around 15-16%.

Why Planning Matters

Strategically planning grant funding and R&D activities ensures you don't leave money on the table. Expert guidance can help optimise funding strategies and maximise cash for growth.





Extending Your Funding Runway

Life sciences startups often operate for years before generating revenue, relying heavily on grants, angel investment, and venture capital. But there's another valuable source of non-dilutive capital: R&D tax credits.

How R&D Credits Help

- 1 Available in most major jurisdictions.
- 2 Can return a significant percentage of eligible R&D spend, even if your company is pre-revenue or loss-making.
- 3 UK examples:
 - SME (ERIS) scheme: up to 27% of qualifying expenditure as cash.
 - RDEC (merged) scheme: around 15–16% for companies not meeting ERIS criteria or undertaking grant-funded work.

Eligible Costs Include

- 1 **Staff time:** Salaries, NI, pensions for technical staff.
- 2 **Materials:** Lab materials, reagents, prototypes.
- 3 **Software:** Tools essential to R&D.
- 4 **Subcontractors:** External technical providers.

Strategic Planning

- 1 Work with accountants early in the year.
- 2 Set up bookkeeping and time-tracking systems to capture R&D activity.
- 3 Maintain technical documentation to justify R&D work.

Impact

R&D credits can fund extra lab work, bridge funding rounds, hire key researchers, and reduce reliance on equity capital. Used well, they are a strategic funding tool, not just a rebate.



Navigating the New R&D Intensive Scheme

HMRC's Enhanced R&D Intensive Scheme (ERIS) rewards the UK's most innovation-driven startups.

Benefits

- 1 Cash credit of up to 27% of qualifying R&D costs for loss-making SME companies.
- 2 Helps fund testing, extend runway, or bridge to investment without dilution.

Who Should Pay Attention?

-  Biotech & pharmaceuticals.
-  Medtech companies building/testing prototypes.
-  Deep tech, AI, or materials science startups.
-  Pre-revenue or early-stage businesses with high R&D spend.

Tips to Qualify

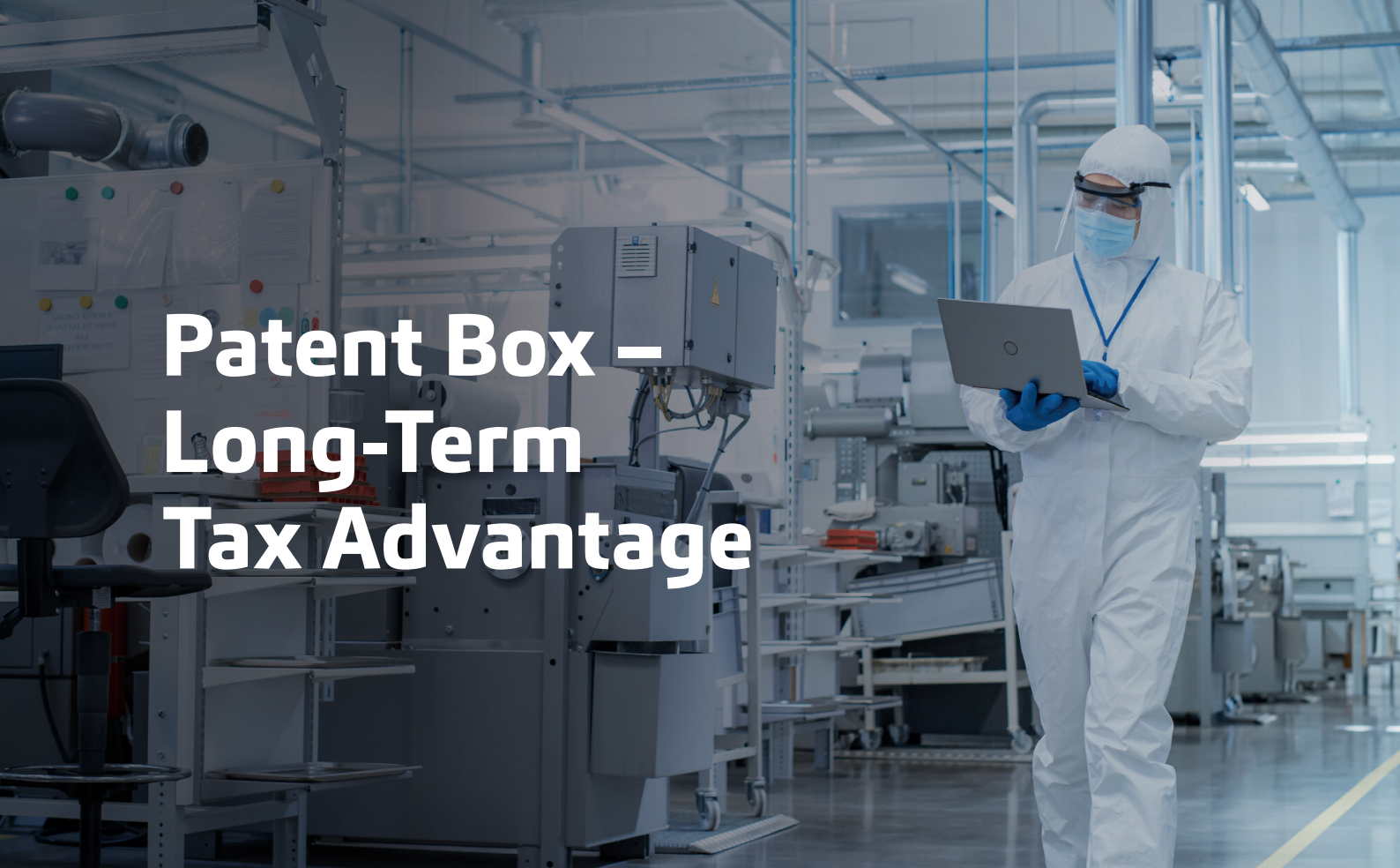
- 1 Understand the '30% R&D intensity test'.
- 2 Track costs meticulously.
- 3 Coordinate with grant funding to maximise claims.

Common Pitfalls to Avoid

- 1 **Poor cost or project tracking** – insufficient evidence can reduce or reject your claim.
- 2 **Waiting until year-end** – monitor R&D intensity proactively throughout the year.

Why This Matters

In today's tight fundraising environment, non-dilutive funding is more valuable than ever. The R&D Intensive Scheme rewards startups doing tricky, risky, transformative work and it's this activity that defines the UK's innovation ecosystem. Used well, it can be a powerful lever to extend your funding runway, fund key hires or experiments and reduce reliance on investor capital. If your startup lives and breathes R&D, this scheme can significantly improve your cash position. Success depends on planning, precision, and proactive management.



Patent Box – Long-Term Tax Advantage

While R&D tax credits support development, the Patent Box regime commercial success by applying a reduced 10% corporate tax rate to profits from patented inventions or qualifying medical or plant varieties.

Why Patent Box Matters

Patent Box isn't just about paying less tax – it's a strategic tool for high-growth, IP-rich businesses. By reducing your effective tax rate on profits tied to innovation, it can:

- 1 Improve cash flow during the growth phase.
- 2 Increase post-tax profitability.
- 3 Strengthen your valuation.
- 4 Make your business more attractive to investors.

For companies developing diagnostic tools, drug compounds, medical devices, or patentable software algorithms, Patent Box can materially improve your financial outlook.

Qualifying Criteria

- 1 Hold a granted UK or qualifying EEA patent, or certain market-authorised medical products.
- 2 Be actively involved in the development of the patented invention.

Key Considerations

If you're developing IP with commercial potential, it's worth thinking early about patent strategy:

- 1 Decide whether to file **UK** or **EEA patents**.
- 2 Plan licensing and exclusivity.
- 3 Keep records of income and expenditure linking profits to patents.

Used alongside R&D tax relief, the Patent Box supports the full innovation lifecycle, from early development to revenue generation.

Future-Proofing Growth with R&D Tax Relief



R&D tax relief is one of the most valuable funding sources for startups, but early-stage companies face unique challenges:

- 1 Interactions between grant funding and available schemes.
- 2 Eligibility of subcontracting costs to universities or overseas labs.
- 3 Staff not on PAYE.
- 4 Adequate records or documentation.

These challenges don't make a claim impossible, but they do require strategic planning and expert guidance. A strong R&D tax advisor can help you navigate compliance while maximising the value of your innovation efforts.

Think Beyond Compliance

Startups that approach R&D tax relief strategically can treat it as part of a broader funding strategy, rather than just an annual compliance task.

Strategic Approach

- Treat R&D tax relief as part of a broader funding strategy.
- Plan and track claims throughout the year.
- Engage expert advisors to maximise compliance and value.

Long-Term Benefits

Getting your R&D tax credit claims right isn't just about cash now, it's about future-proofing your business.

- 1 **Due diligence readiness:** investors scrutinise tax claims.
- 2 **Valuation uplift:** demonstrates funding efficiency.
- 3 **Operational resilience:** easier to sustain and optimise claims.

R&D tax relief remains one of the most valuable lifelines for innovation-led startups. But to realise its full potential, founders must treat it as a strategic asset, not just a finance checkbox.

Talk to our specialists at MHA to ensure your R&D tax claims are optimised, compliant, and fully integrated into your funding strategy. Together, we can help ensure your startup maximises value, minimises risk, and unlocks its full growth potential.

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