

What is R&D for tax purposes?

Research and Development (R&D) Incentives

R&D tax relief provides companies with the opportunity to reduce their tax bill or claim a cash credit where they are carrying out eligible R&D activities. The amount of relief available depends on the total qualifying costs associated, the size of the business and importantly, whether projects meet the eligibility criteria R&D projects.

R&D guidelines: Definition for tax purposes

The definition of R&D for tax purposes is outlined in the Department of Science, Innovation and Technology ([DSIT guidelines](#)). In essence, a project qualifies as R&D if it aims to advance science or technology by resolving scientific or technological uncertainties.

The definition is broad. As a result, clearly understanding and applying the definition to projects across industries can often be challenging. However, the advance and uncertainty can be interpreted as follows:

1 Advance in science or technology

For a project to qualify, it must aim to achieve an advance in science or technology, even if the goal is not fully realised. There are several types of advancements that may qualify, including:

- Create new knowledge or capability within a field of science or technology.
- Create a new process, material, device or product which represents new knowledge/capability within a field, or appreciably improves an existing process, material, device or product.
- Recreate an existing process, material, device, product in a new or improved way. Or replicate the advance where this has already been achieved, but details are not readily available (e.g. due to trade secrecy).

The advancement must be measured against the scientific

or technological baseline, meaning the available knowledge or capability in the field before the project began.

Projects may pursue more than one type of advance. However, it's important to note that an advancement solely within the company does not count as an advance in science or technology. The use of existing knowledge or capabilities, or activities purely driven by commercial goals and activities, would not qualify unless accompanied by one of the advances listed above.

2 Scientific or technological uncertainty

In addition to the advance, a company must demonstrate that it faced scientific or technological uncertainty and actively worked to resolve it. Uncertainty may arise when:

- It is unclear whether something is scientifically or technologically possible.
- The method to achieve a desired outcome is unknown.
- Where it is unclear how combining different component will impact a larger system (system uncertainty).

If the project's uncertainties could be easily resolved using the company's existing knowledge/capabilities, publicly available information, or the expertise of their competent professional without facing any significant challenges, then it may not qualify.

Projects involving multiple iterations, failed attempts, or challenges in reaching a solution provide a strong case for demonstrating the presence of uncertainty.

Qualifying fields of science or technology

Importantly, any advance must be made in eligible fields of science or technology to qualify for R&D tax relief. Eligible fields include sciences that study the physical and material universe, applied technologies, and mathematics. However, fields such as the arts, humanities, social sciences, and disciplines that study human behaviour or opinions (such as economics, psychology, and sociology) are ineligible.

Examples of qualifying R&D projects



1 A chemicals company is developing an insect repellent formula aimed at improving effectiveness in deterring insects. The team is testing different formulations, incorporating various potential active ingredients, and evaluating their performance against existing products. The project aims to achieve an advance in an eligible field of science or technology by creating a new product and addressing scientific uncertainties through trials and experimentation.



2 An engineering company aims to improve efficiency by reducing waste and increasing production rates. Unable to find existing tools or technologies to achieve this, the company sets out to design and develop a new tool that reduces material usage and boosts production speed. The company's engineers acknowledge the uncertainty of how to accomplish this and conduct trials and experiments to determine if the tool meets performance requirements. After multiple design iterations, the tool is finally suitable for use.

This project seeks an advance by developing a new tool and overcoming uncertainties through design and development trials.



3 A software company seeks to improve the scalability and performance of an existing platform. The competent professionals recognised that publicly available information and existing methods to improve scalability were limited and could not support their requirements, nor could a solution be readily deduced from known solutions. Therefore, a new proprietary method was developed and trialed to optimise platform scalability.

This project seeks an advanced through an appreciable improvement to an existing technology, and overcomes uncertainty through investigating an alternative approach.

Examples of non qualifying R&D projects



1 A food company redesigns its product labelling and conducts market research and focus group testing to assess customer preferences.

This is not R&D because the company is seeking a commercial improvement, not an advance in science or technology.



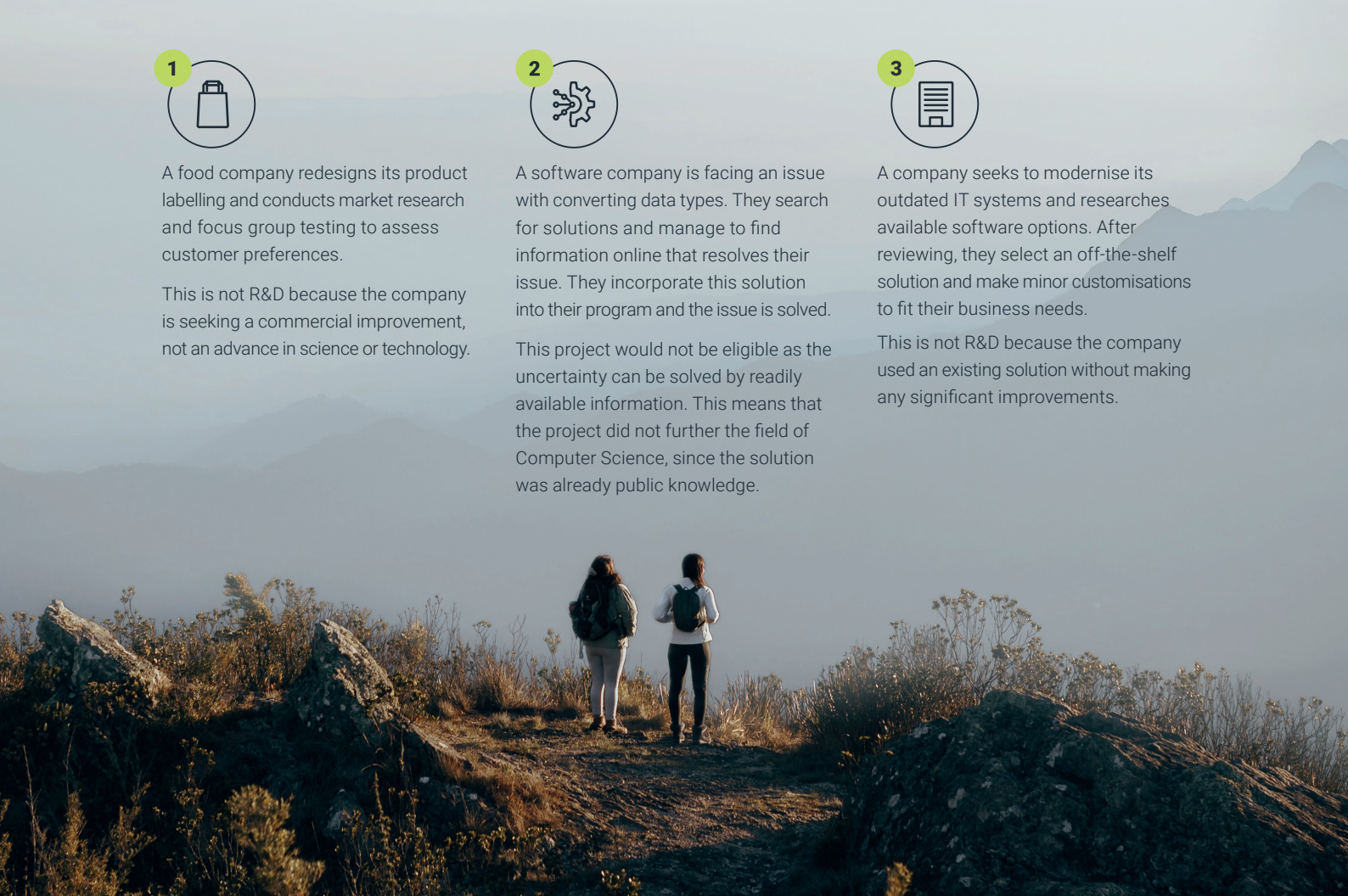
2 A software company is facing an issue with converting data types. They search for solutions and manage to find information online that resolves their issue. They incorporate this solution into their program and the issue is solved.

This project would not be eligible as the uncertainty can be solved by readily available information. This means that the project did not further the field of Computer Science, since the solution was already public knowledge.



3 A company seeks to modernise its outdated IT systems and researches available software options. After reviewing, they select an off-the-shelf solution and make minor customisations to fit their business needs.

This is not R&D because the company used an existing solution without making any significant improvements.



i Get in touch



Kanika Mishra Pathak

R&D Tax Director

E: kanika.MishraPathak@mha.co.uk

Kanika has a wealth of expertise in the fields of technology and financial services, underpinned by a strong background in computer science and an MBA. Kanika leads the R&D team at MHA and has a range of industry knowledge spanning Financial Services, Fintech, Technology, Media and Telecommunications (TMT), Retail, Manufacturing, Agriculture, Construction, Healthcare, Life Sciences, Automotive, and Engineering.



Jay Desai

R&D Tax Senior Manager

E: jay.desai@mha.co.uk

Jay has a background in Chemistry and industry experience, he brings over 8 years of advisory expertise, collaborating with businesses across the Science, Engineering, and Software sectors.



Lee Pimlett

Senior Tax Manager

E: lee.pimlett@mha.co.uk

Lee's focuses on Research & Development and other tax geared incentives as well as corporation tax. He has particular expertise in life sciences, civil engineering, construction, food science, agriculture, aerospace and software sectors.



Scott London-Hill

R&D Tax Manager

E: scott.london-hill@mha.co.uk

With a Bachelors' degree in Mechanical Engineering, Scott is experienced in helping innovative companies maximise their financial opportunities through strategic tax incentives, specialising in R&D Tax Credits, Patent Box and VGTR.

Now, for tomorrow