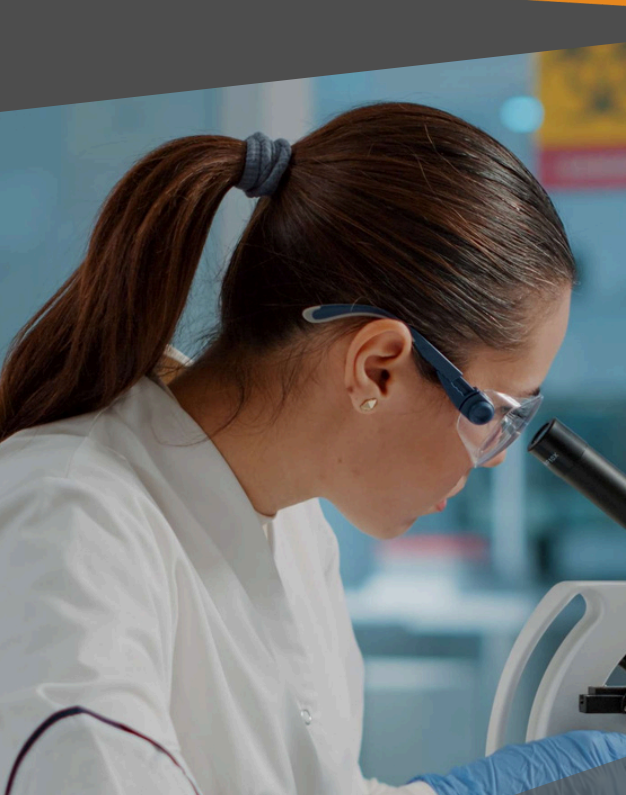


The merged R&D tax relief scheme



James Cowper Kreston has an exceptional track record in helping companies reduce their tax bill through Research and Development (R&D).

R&D and Patent Box tax reliefs are generous incentives aimed at promoting innovation and economic growth.

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The merged R&D tax relief scheme: What does it mean?



The merged R&D tax relief scheme: What does it mean?



The landscape of incentives for Research and Development (R&D) in the UK has witnessed a significant transformation with the rollout of the merged scheme for R&D tax relief.

Overview of the merged scheme: Changes & impact

The merged R&D tax relief scheme, introduced for accounting periods beginning on or after 1 April 2024 to encourage British innovation, consolidates previous tax incentives into a single, unified framework. Businesses, both large and small, now access R&D tax relief through a harmonised process, designed to reduce complexity and encourage broader participation.

The changes aim to boost accessibility, drive investment in high-impact projects, and ensure that the UK remains competitive on the global innovation stage. Early reactions from the business community highlight increased clarity, faster claims processing, and a renewed appetite for R&D activities.





The latest R&D trends

Hot off the press, the Office for National Statistics reports a surge in R&D claims post-scheme, with a 12% year-on-year rise in claims and a record £47 billion invested in R&D across sectors in 2024. Notably:



Green technology: Cleantech and sustainability projects now account for 18% of total R&D claims, up from 11% just two years ago



Digital transformation: AI-driven R&D claims have doubled, reflecting the UK's push towards digital leadership



Regional growth: The merged scheme's simplified access has seen a 22% increase in first-time claimants outside London, levelling up innovation nationwide

This data underscores a vibrant, rapidly evolving R&D environment, with businesses quick to adapt and capitalise on new opportunities.





The time to innovate is now

The merged R&D tax relief scheme represents the Governments continued drive to encourage and reward UK innovation. With streamlined procedures, there's never been a better time for businesses to invest in R&D and claim R&D tax relief. Seize the opportunity, review your R&D plans, and help shape the future of British enterprise. It's time to make your innovation count.



The merged R&D tax relief scheme: A practical guide for UK businesses



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A practical guide for UK businesses

The introduction of the merged R&D tax relief scheme marks a pivotal moment for businesses seeking to innovate in the UK. By unifying previous tax relief frameworks, the new system aims to simplify access to the generous tax reliefs for R&D innovation (which have now been in existence for a quarter of a century). The scheme forms part of the UK Government's commitments to investment in R&D, as outlined in the Industrial Strategy published in June 2025 and sits alongside other tax measures such as Patent Box, capital allowances and investment schemes such as the Enterprise Investment Scheme. The Government acknowledges that investment (along with tax incentives) in R&D is an important lever to drive economic growth in the UK.

But who qualifies under the merged tax relief scheme, and what steps must businesses take to benefit?

How to check if your business qualifies?



Identify eligible projects: Projects must aim to make a genuine scientific or technological advancement, and address uncertainties that competent professionals cannot easily resolve



Keep detailed records: Maintain clear documentation of project objectives, challenges encountered, and the methods used to overcome them. This will be crucial when submitting a claim



Calculate qualifying expenditure: Costs that can be claimed include staff wages, materials, software, and certain subcontractor expenses directly linked to eligible R&D activities



For loss-making SMEs: confirm your R&D intensity calculation to determine if you qualify for enhanced R&D intensive support

What's different now?

The transition to a merged scheme brings greater consistency, reducing the confusion that once surrounded multiple reliefs and their varying criteria. This clarity not only speeds up claims but also broadens participation, with early data showing a notable uptake in both applications and successful outcomes.



Looking ahead



As British innovation surges, driven by growth in cleantech, digital transformation, and advanced manufacturing, the merged R&D tax relief scheme is poised to play an important role. For businesses, understanding the qualifying criteria and following a structured approach to claims will be key to unlocking this vital form of funding and staying ahead in the competitive R&D landscape.

The merged R&D tax relief scheme: How much is it worth?





With the introduction of the merged R&D tax relief it is important to understand: what is the real financial benefit for businesses, and how much can companies claim?

What is the merged R&D tax relief scheme worth?

The merged scheme is designed to provide tangible, accessible tax relief to a wide spectrum of UK businesses investing in R&D. By harmonising previous reliefs, the government aims to offer greater clarity on the potential value of claims, ensuring that both SMEs and large companies can better forecast the impact on their finances.

Under the merged scheme, the core benefit is delivered through a taxable credit, rather than an enhanced deduction. The exact amount a business can claim depends on its size, profitability, and the nature of its R&D expenditure. However, the streamlined approach means businesses can now anticipate a consistent value, making financial planning and investment decisions more straightforward.



Calculating the benefit: Key figures and examples



Understanding the financial impact of the merged R&D tax relief to help visualise the benefit let's walk through a typical claim scenario. This example features a growing SME with £100,000 of qualifying R&D costs with minimal early-stage income:

- Under the merged scheme the company receives a 20% credit, equating to £20,000
- After applying corporation tax of 19%, the net benefit is £16,200
- This results in an effective rate of 16.2%
- If the company qualifies for enhanced support, the net benefit yields £26,970

Looking ahead: Making the most of your claim

To unlock the full value of the merged R&D tax relief scheme, businesses should:

- Confirm the application of the PAYE/NIC cap
- Check through your supply chain to confirm who is eligible to claim
- Review overseas third-party costs to see if they are blocked under these new rules
- Confirm whether you are profit or loss-making to determine the correct level of benefit

With the merged scheme now one of the key parts of the UK's Innovation Strategy, understanding its worth, and claiming every pound to which you're entitled, could make all the difference in staying competitive and future ready.



Qualifying costs: An overview of what can be claimed under the merged R&D tax relief scheme



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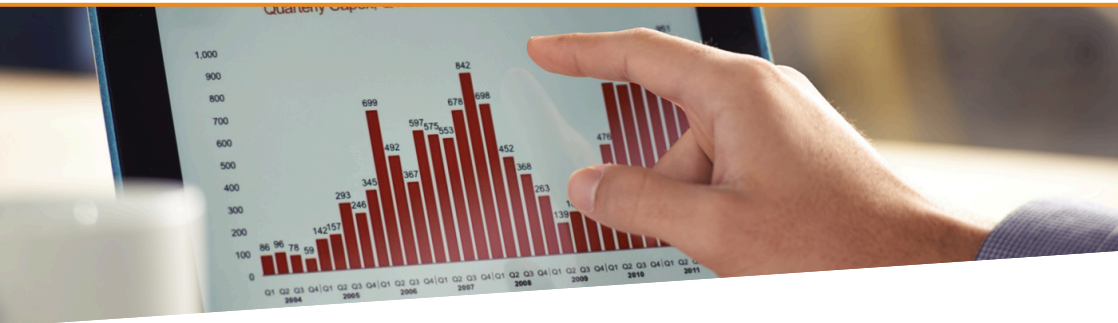
With the implementation of the merged R&D tax relief scheme, it is important for businesses to understand which costs are eligible for relief to maximise the financial benefit of their claims.

What are qualifying costs?



Qualifying costs are those directly attributable to activities seeking to achieve a scientific or technological advance, where the outcome was uncertain at the outset and required skilled problem-solving.





Categories of eligible expenditure

To help businesses navigate the new scheme, here's a summary of the main qualifying cost categories:



Staff costs: Salaries, wages, employer's National Insurance contributions, and pension contributions for employees directly engaged in R&D. This also includes certain reimbursed expenses incurred while undertaking R&D work



Consumables: Materials and resources used up in the R&D process, such as chemicals, components, and utilities like water, fuel, and power. Expenditure on prototypes or testing materials that are not intended for commercial sale may be eligible, provided they are used in the qualifying R&D activity



Software: The cost of software licences used specifically for R&D purposes, including cloud computing and data costs where directly relevant to the project



Subcontractor and externally provided worker (EPW) costs: Payments to subcontractors and third-party workers engaged in eligible R&D activities, subject to certain restrictions and conditions under the merged scheme



Payments to clinical trial volunteers: For companies in the life sciences sector, payments made to volunteers for participating in clinical trials are allowable

Recent changes and points to consider

The merged scheme has introduced greater clarity and consistency regarding which costs are eligible, helping businesses of all sizes, from SMEs to large corporations, plan their R&D investments with confidence. However, some changes may affect the scope of claims and there are still some points to consider that have carried over from the old rules:



Overseas costs: New rules may restrict the inclusion of certain overseas third-party costs, so it's important to review your supply chain and clarify eligibility early on



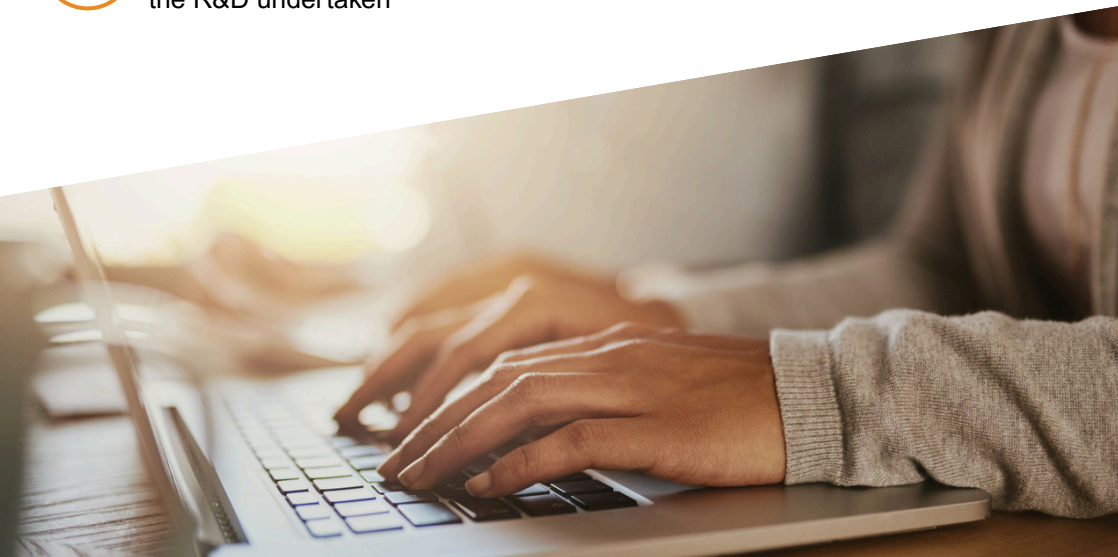
PAYE/NIC cap: There is a cap based on the company's PAYE and NIC liabilities, which may limit the amount that can be claimed, especially by businesses with a high proportion of subcontracted work



Connected party rules: Costs incurred via connected parties or group companies must meet additional requirements to be included



Qualifying indirect activities: Certain indirect activities such as maintenance, security, administration, and clerical services can qualify where they support the R&D undertaken





Calculating and documenting qualifying expenditure

Accurate calculation and detailed documentation of qualifying costs are essential. Businesses should:

- Keep thorough records of all R&D activities and related expenditure
- Clearly separate eligible R&D costs from general business expenses
- Ensure that staff time, consumable usage, and third-party costs are properly allocated and justified



Looking ahead: Maximising your claim



As the merged R&D tax relief scheme becomes an increasingly important pillar of the UK's innovation strategy, understanding and correctly identifying qualifying costs will be key to unlocking the full value of the scheme. By staying informed and maintaining robust records, businesses can ensure their claims are both accurate and comprehensive, helping them remain competitive and ready for future growth.

Contracted-out R&D: Understanding the new definition



The merged R&D tax relief scheme introduces a new definition for contracted out R&D, which has significant implications for businesses engaging third parties to undertake research and development on their behalf.

What has changed?

Previously, the legislation did not define “subcontractor” or “contracted out” R&D, creating uncertainty and the potential for disputes. HMRC previously argued that R&D carried out under commercial contracts was ineligible, but tribunals disagreed.

In cases such as Quinn (London) Ltd and Collins Construction, the tribunals ruled that fulfilling a client contract does not automatically mean R&D is subcontracted or subsidised unless the client specifically required and funded the R&D. These decisions exposed the lack of clarity in the old rules and prompted the introduction of a statutory definition under the merged scheme.



The merged scheme addresses this by:

- Introducing a legislative definition of “contracted out R&D” and
- Removing the old R&D expenditure credit restrictions on subcontractor costs, while ensuring only one company in the supply chain can claim for a given piece of R&D



The new definition

The legislation now defines when R&D is considered “contracted out” if:

- It enters a contract for activities to be done on its behalf
- Those activities include R&D, and
- At the time of contracting, it was reasonable to assume that the company intended or contemplated that R&D of that sort would be done



Essentially, the new definition focuses on the intention at the time of contracting, not hindsight. A business should consider both the contract terms and surrounding circumstances to determine who initiated the R&D and for whose benefit it was carried out.

Examples

<p>Example 1</p>	<p>If a manufacturing firm hires a specialist engineering company to develop a prototype, and the manufacturing firm specifies the research objectives and owns the results, the manufacturing firm can claim the tax relief for the contracted-out R&D costs.</p>
<p>Example 2</p>	<p>Conversely, if a software agency is contracted to deliver a bespoke IT solution but the agency itself sets the direction, innovates, and bears the financial risk, the agency (not the client) would be able to claim for the R&D work performed.</p>

Key actions

To align with the new definition, businesses should carefully review their contracts to ensure roles, responsibilities, and risks are clearly set out and documented. This will help establish who is entitled to claim and provide the necessary evidence should HMRC request further information. By understanding the new definition and structuring agreements accordingly, companies can maximise their R&D tax relief claims and avoid costly misunderstandings.

Overseas R&D restrictions: What you need to know



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The merged R&D tax relief scheme introduces stricter rules on overseas R&D expenditure, with the aim of focusing support on innovation activities carried out within the UK. Under the new regime, only R&D work physically undertaken in the UK will generally qualify for relief, except in circumstances where it is necessary for the project to be conducted abroad, such as where specific facilities, expertise, or regulatory approvals cannot be found domestically.

What's different now?

Previously, overseas costs could often be included if they met the general qualifying criteria as there was no geographical requirement. Under the merged scheme, contractor payments and externally provided worker (EPW) costs are excluded if the R&D is done outside the UK, unless the work meets the statutory exception.

This exception applies only where:

- There are conditions necessary for the R&D that do not exist in the UK, but are present overseas, and
- It would be wholly unreasonable for the company to replicate those conditions in the UK

Examples of these conditions include:

- Geographical, environmental, or social factors (e.g. unique climate or population)
- Legal or regulatory requirements (e.g. clinical trials mandated by overseas regulators)

However, cost savings or workforce availability do not qualify as valid reasons on their own.

Examples

Example 1

If a pharmaceutical company must conduct clinical trials in another country due to unique patient populations or regulatory requirements not available in the UK, these costs may still qualify, provided robust evidence is supplied to justify the overseas work.

Example 2

However, if a business chooses to outsource software development to an overseas team simply for cost reasons, those costs are unlikely to be eligible for relief under the new rules.

What should you do now?

To align with the new definition, businesses should carefully review their contracts to ensure roles, responsibilities, and risks are clearly set out and documented. This will help establish who is entitled to claim and provide the necessary evidence should HMRC request further information. By understanding the new definition and structuring agreements accordingly, companies can maximise their R&D tax relief claims and avoid costly misunderstandings.



Compliance and HMRC scrutiny: Understanding the new requirements





The merged scheme does more than redefine eligibility for claims, it also ushers in a new era of compliance and administrative oversight for businesses wanting to benefit from R&D incentives. To ensure claims are genuine and to improve transparency, HMRC has introduced additional checks and forms that businesses must now navigate.

Advance notification

One of the key procedural changes is the advance notification requirement. Under the new rules, any company intending to make an R&D tax relief claim for the first time, or after a gap of a few years, must notify HMRC within six months from the end of the accounting period in which the qualifying R&D activities took place. Missing this deadline can mean losing the right to claim for that period. For instance, if a company's year-end is 31 March 2025, and it has never claimed R&D tax relief before, it must alert HMRC by 30 September 2025 to be eligible to make the claim (even though the deadline for the claim itself is 31 March 2027).



Additional information form (AIF)

Alongside the traditional tax return submission, claimants must now complete and provide an Additional Information Form before filing their R&D tax relief claim. This form asks for detailed project descriptions, including the nature of the scientific or technological advancements pursued, the uncertainties addressed, and details on which personnel and costs were involved. HMRC uses this information to assess the claim's validity, reinforcing the move toward more robust scrutiny.

By understanding these new obligations and adjusting internal systems to meet them, companies can avoid unnecessary pitfalls and continue to secure the benefits of R&D tax relief under the merged scheme. Engaging with professional advisers and training staff in the new procedures is recommended to ensure ongoing compliance and to respond confidently to HMRC's enhanced scrutiny.



HMRC enquiry activity: What to expect

HMRC has significantly increased its scrutiny of R&D tax relief claims in recent years. This is driven by a need to tackle error and fraud, which previously reached rates as high as 17.6% under the old small or medium enterprise scheme. Recent reforms, including the introduction of the AIF and advance notification, set out above, have helped reduce the overall error and fraud rate.

Key features of HMRC's current approach include:



Mandatory random enquiry programme: HMRC now randomly selects claims for detailed review, regardless of size or sector, to monitor compliance and identify risk areas

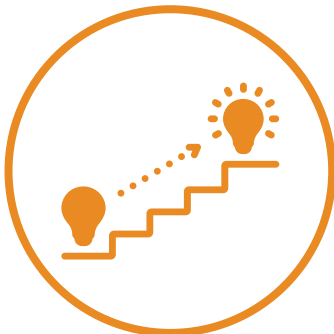


Targeted enquiries: Sectors with historically high non-compliance, such as construction, care homes, and software, are seeing more frequent and in-depth enquiries



Faster processing, more checks: While 90% of claims are processed within 40 days, the compliance framework is now much more robust, and poorly prepared or under supported claims are more likely to be challenged or rejected

Key steps



To navigate the new compliance landscape, companies should review and update their internal processes for R&D claims, ensuring that all notification and documentation requirements are met. It's essential to keep detailed records of R&D activities, costs, and decision-making, and to prepare for the possibility of an HMRC enquiry, even for routine claims. By embedding these practices and staying proactive, businesses can minimise the risk of delays or challenges and continue to benefit from R&D tax relief with confidence.

Strategic planning tips for maximising your claim and reducing risk under the new R&D tax relief merged scheme



Maximise your potential

Strategic planning tips

As we conclude this series on the new merged R&D tax relief scheme, it's clear that the landscape for innovative businesses claiming tax relief has shifted significantly. While this unified framework is designed to streamline R&D incentives, it also brings fresh challenges and additional compliance obligations. In this final article, we provide strategic guidance to help organisations optimise their claim and effectively manage the risks introduced by these latest changes.

1 Understand the new merged scheme

The first step to a successful claim is developing a thorough understanding of the merged R&D tax relief scheme. Familiarise yourself with the qualifying criteria, eligible activities, and the documentation now required. The scheme may have redefined what counts as R&D, and it is essential to keep abreast of any sector-specific guidance or updates from HMRC.

2 Confirm your R&D intensity

With the introduction of the Enhanced R&D Intensive Support scheme, it is crucial for loss-making small or medium enterprises to calculate their R&D intensity early in the process. Meeting the 30% threshold could unlock higher rates of relief, so understanding your eligibility from the outset ensures you can plan your projects and claims with confidence and avoid missing out on valuable support.

3 Review supply chain and contractual arrangements

It is essential to review your supply chain and contractual arrangements considering the new statutory definition of contracted-out R&D. Only one company in a supply chain can claim for a given set of R&D activities, so businesses should carefully examine their contracts to clarify who is entitled to claim. Agreements should clearly set out roles, responsibilities, and the intention behind any R&D activities. Proper documentation and precise contract wording are now more important than ever to avoid disputes and to maximise your claim.

4 Plan for overseas restrictions

The merged scheme introduces strict limits on claiming for R&D carried out overseas. If your business relies on overseas R&D, you should review your arrangements and gather robust evidence to justify any non-UK work. The statutory exception only applies where it would be wholly unreasonable to replicate the necessary conditions in the UK. You should carefully assess whether the services provided by your overseas third parties are genuinely specialist or bespoke, and whether such expertise or facilities are unavailable within the UK. Documenting the unique value or necessity of these overseas contributions will be crucial for compliance and for protecting your claim.

5 Review and update internal processes

Beyond these headline changes, it is important to audit your existing R&D tax relief claim processes and adapt them to fit the merged scheme's requirements. This may involve updating project tracking systems to capture detailed records of R&D activities and expenditure, aligning finance and technical teams on definitions and evidence gathering requirements, and implementing regular reviews to identify qualifying projects in real time rather than retrospectively.

6 Maximise eligible expenditure

Review your cost allocation to ensure all eligible expenses are included. Common qualifying costs include staff salaries, externally provided workers, consumables, software, and subcontracted R&D. The merged scheme may have introduced changes to what is allowable, so be diligent in checking all categories and don't overlook indirect costs that may now be eligible.

7 Strengthen record keeping and evidence gathering

Robust documentation is key to both maximising your claim and reducing risk of enquiry or clawback. Best practices include maintaining contemporaneous project notes, timesheets, and technical justifications for all claimed activities. As well as storing supporting evidence such as emails, design documents, and test results. Retaining records for the statutory period, in case of future enquiries, is also vital.

8

Engage cross-functional teams early

Collaboration between finance, technical, and project management teams ensures that claims are both comprehensive and compliant. Technical leads should be involved in identifying qualifying activities, while finance teams should ensure costs are correctly allocated and documented. Regular communication reduces errors and uncovers additional claimable work.

9

Monitor legislative and guidance updates

The merged R&D tax relief scheme is new and may evolve as guidance is clarified and case law develops. Appoint someone to monitor HMRC updates or subscribe to industry newsletters to stay informed of changes that could affect your claim.

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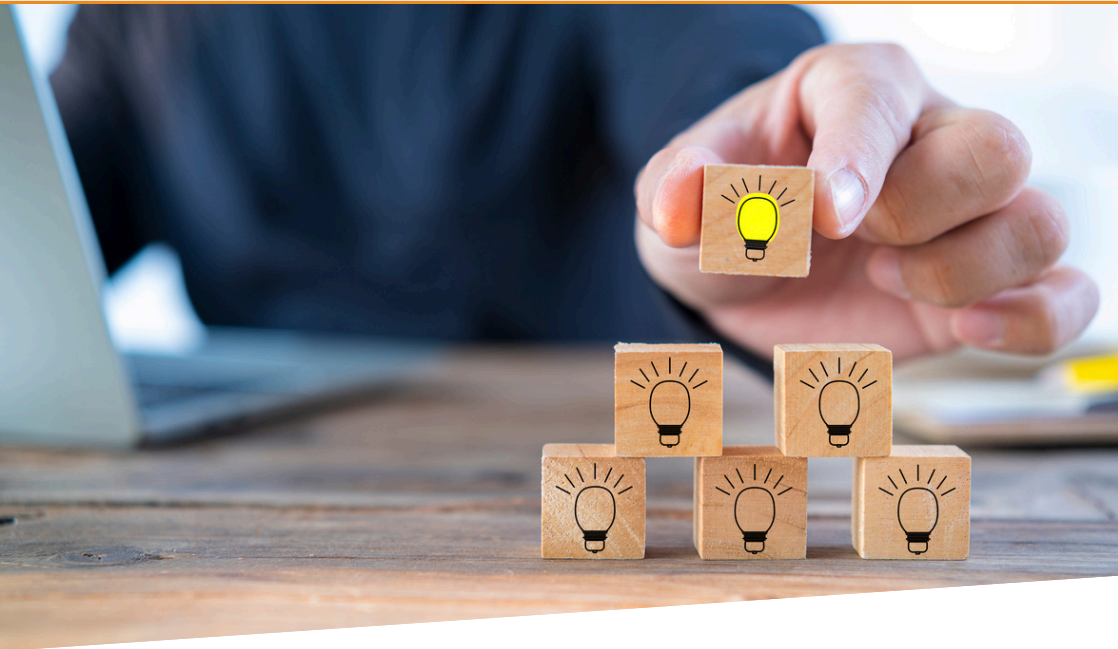
Consider professional advice

Given the complexity and potential for significant financial benefit, consulting with R&D tax specialists or qualified advisors can be invaluable. They can review your processes, help interpret grey areas, and provide support during HMRC enquiries, ultimately reducing risk and maximising your claim.

11

Plan for enquiry readiness

Even well-prepared claims may be subject to HMRC review. Prepare for this possibility by ensuring all claims are defensible with clear, well-organised evidence. Respond promptly and professionally to any queries, and keep your advisors informed.



Conclusion

The new R&D tax relief merged scheme presents both opportunities and challenges for innovative businesses. By adopting a strategic approach, rooted in understanding the rules, implementing robust processes, and proactive risk management, you can maximise your claim and safeguard your business. Start by reviewing your current practices, seek expert guidance where needed, and stay agile as the new regime beds in.




Meet some of our Business Tax team who specialise in R&D and Patent Box




 **Phil Snell, Partner**

 **psnell@jamescowper.co.uk**

 **+44 (0)7825 423556**

 **Alex Nicholson, Partner**


 **anicholson@jamescowper.co.uk**

 **+44(0)7879 882093**




 **Sharon Bedford, Partner**

 **sbedford@jamescowper.co.uk**

 **+44 (0)7776 255848**

 **Sam Swansborough, Director**


 **sswansborough@jamescowper.co.uk**

 **+44(0)7780207603**




 **Sean Scott, Senior Manager**

 **sscott@jamescowper.co.uk**

 **+44(0)7823 353587**

 **Margaret Savory, Tax Consultant**

 **MSavory@jamescowper.co.uk**

 **+44(0)7823 353597**

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