

EMPOWERRD

R&D

Tax Credits

**The Ultimate Guide
2026**

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Introduction



Hari Sandhu

Founder and Executive Chair

It's now more than 25 years since the UK Research and Development (R&D) tax relief scheme was first introduced. During that time, there have been several changes in how parts of the scheme operate.

However, R&D tax credits remain a central pillar of the UK tax system and a fundamental way the government seeks to help drive Innovation.

R&D tax credits are here to stay. The government has committed to increasing spending on research and development to £22 billion over the next two years and reach R&D investment equivalent to 2.4% of GDP by 2027.

The UK has one of the most generous tax regimes for R&D investment in the world. Businesses in a diverse range of sectors have already benefitted from this investment.

However, many other companies still report finding the scheme complex and difficult to understand and navigate, and they fail to claim under the scheme when they can.

EmpowerRD wants to make it easier for companies to claim R&D tax credits. We hope this guide will provide you with an informative introduction to R&D tax credits and inspire you to explore this valuable source of additional funding.

What are R&D tax credits?

The UK government's **R&D tax credits scheme** is designed to stimulate innovation in the UK economy. The program provides UK businesses with either a cash credit or corporation tax deduction to compensate for their research and development costs.

R&D Tax Relief was created in 2000 and has grown in popularity ever since. In the year ending March 2024, the scheme processed 46,950 claims with more than £7.6 billion worth of relief.

The scheme has gone through numerous reforms over the past few years and from 1 April 2024, the scheme evolved, with the SME and RDEC schemes merging into a unified framework aligned primarily with the RDEC rules.

Additionally, the **Enhanced R&D Intensive Support (ERIS)** was also introduced specifically for R&D-intensive SMEs on 1 April 2024.

R&D-intensive SMEs are defined as loss-making SMEs that invest 30% or more of their expenditure on R&D.

From 1 April 2026, the legacy SME scheme will cease to be available for any new claims.

It's important to understand that while the SME scheme will become a legacy scheme, companies can still submit or amend claims through it for accounting periods that began before 1 April 2024, provided they do so within the standard two-year filing window. For most companies, this means claims for periods ending in early 2024 must be submitted by the end of March 2026, with the final claims under the old rules becoming completely obsolete by 31 March 2027.

The benefits of R&D tax credits

We have seen businesses transformed by the research and development expenditure credit they receive. It often provides an important stepping stone towards further growth, investment and profitability.

Despite this, many companies are still unaware of the scheme or believe they don't qualify, missing out on tens of thousands of pounds in funding.

At EmpowerRD, we're on a crusade to change this, and we hope our step-by-step guide will help you combat any uncertainties, concerns or misconceptions.

To get you started, here are just some of the benefits of R&D tax credits!

Any sector or industry is eligible

R&D tax credits are frequently misunderstood, with many people believing that only businesses operating in the field of science and technology can qualify for them.

However, any company may apply; many businesses have received R&D tax credit approval in sectors where you might, at first sight, think little R&D is done. If you're registered to pay Corporation Tax in the UK, and your projects meet HMRC's requirements for qualifying R&D costs, you can claim.

At EmpowerRD, we've seen a range of businesses from different sectors claim, whether that's construction, online retail or agriculture.

For example, we've helped [Bloom & Wild](#), the online florist and digital letterbox flower delivery company.

No minimum claim requirement

Back in 2012 there was a £10,000 minimum requirement to claim, which ruled out participation for a lot of startups and scaleups. However, in 2026, there is no minimum claim amount.

The government changed this rule to accommodate SMEs who are conducting groundbreaking R&D, helping to nurture and accelerate their growth and boost the UK economy. And while the rule changed a few years ago, some companies are still not aware of the rule change.

Am I eligible to claim R&D tax credits?

If you are a limited company in the UK undertaking research and development projects and can demonstrate that your work meets HMRC's definition of eligible R&D, then you can claim R&D tax credits.

However, with HMRC's lengthy eligibility guidelines and precise definition of 'research and development,' it can be challenging to know which projects qualify for R&D.

HMRC's definition of R&D for tax purposes

R&D arises when a business seeking a scientific or technological advance faces and tries to overcome scientific or technological uncertainties through methodical experimentation conducted by a competent professional.

We understand how difficult it might be to interpret the definition above, which is why we've done our best to break it down into four criteria to help you get an early indication of whether or not your project qualifies as R&D.

Criterion 1: New or improved product

If your business is developing a new or improved product, tool or service, you could be carrying out R&D. It's also likely that you'll be attempting to overcome an obstacle where there is no obvious solution. Two examples of qualifying projects could be:

- **The development of a new software product.**
- **Modifying your existing production line to increase productivity.**



Criterion 2: Scientific or technological advance

HMRC states that your specific project must have made an 'advance in science or technology. It sounds impressive and grand, but actually, many projects generate an advance.

For example, if you looked at an off-the-shelf technology and instead built a bespoke application or machine to solve your problem, then that work will likely qualify as an advance.



Criterion 3: Scientific or technological challenge

To qualify for R&D tax credits, making a scientific or technological advance should be a real challenge. That's why HMRC need to see that your project encountered a 'scientific or technological uncertainty' for it to qualify for R&D.

Two factors indicate that you faced a scientific or technological uncertainty:

1. The solution to your challenge was not readily available or within public information.
2. A skilled professional working in your industry cannot easily solve scientific or technological uncertainty.



Criterion 4: Competent professional

The eligibility guidelines require that the R&D work be planned and overseen by a skilled professional working in your industry. This is known as a 'competent professional'. Their presence indicates that the 'advance' was challenging to achieve.

Examples of suitable professionals include:

- **Engineers**
- **Developers**
- **Scientists**
- **Skilled craftsmen**



Which costs qualify for R&D tax credits?

While you may have undertaken activities that qualify as R&D, you'll still need to know which costs you can include in your claim. Here is a list of typical eligible expenses:

Cost	Description
Staff	You can claim the salaries of staff directly involved with the R&D project. Staff costs can also include class 1 National Insurance contributions, employer pension fund contributions, bonuses and some reimbursed expenses.
R&D consumable items	Items that are directly employed by and consumed in the R&D projects can also qualify. They include physical materials and hardware, as well as utilities such as the power, water and fuel used directly in the R&D. Proportioning consumables to your R&D activity can be tricky, so we recommend reading HMRC's advice on that.
Software	You can claim the cost of software used in your R&D projects. If you use the same software for business-as-usual activity, then you should include an appropriate proportion of the software's cost in your claim.
Prototypes	You can often include the cost of designing and constructing a prototype. However, the purpose of the prototype must be to resolve some scientific or technological uncertainty. If you design the prototype for a commercial function (e.g. as a demonstration model at a trade show) then it doesn't qualify. Equally, if you later sell the prototype to a customer, then the cost of the build cannot qualify as R&D (although there may have been R&D involved in developing the prototype!). HMRC would argue that you've resolved any technological uncertainty if you're confident enough to sell it to a customer.

Externally Provided Workers (EPWs)

These are the costs paid to a third party for staff who are directly involved with the R&D project. They are not employees or subcontractors. In most cases, you can claim up to 65% of the payments made to the external staff provider.

Subcontractors

As a rule of thumb, you can claim 65% of the payments made to "unconnected" subcontractors in the SME scheme. However, you can qualify for up to 100% of the expenditure if the subcontractor is a connected party (i.e. a parent company, a subsidiary etc.). If you plan to claim for subcontractor costs then consult our guide before doing so.

Research contribution

Research contributions are payments made to third party organisations to conduct research on your behalf. Large companies can claim these as an eligible R&D cost, but not SMEs. The research must be relevant to your field or scientific pursuit. An "individual or partnership of individuals", or "a qualifying body" must conduct the research. A qualifying body would be a charity, higher education institute or a named scientific research body. In most cases, the organisation needs to be based in the UK but HMRC provides a list of some qualifying overseas bodies.

Clinical trial contribution

Clinical trials are of course essential for pharmaceutical R&D. However, the costs are not covered by the other categories. Businesses can claim for the costs associated with both attracting and paying for the volunteers. HMRC has a specific guide on this, which we recommend consulting.

New (er) qualifying costs

From 1 April 2023, cloud computing, data and pure mathematics became eligible R&D costs.

Cloud computing and data

Companies will be able to claim relief against the costs associated with using third-party resources and services in the acquisition, analysis and storage of big data, making greater use of digital twinning, simulation and prototyping amongst other things.

Pure mathematics

To help match the growing volume of R&D fueled by mathematical advances, the definition of R&D tax relief will be expanded to include pure mathematics as a qualifying cost.

This will benefit developing industries in which the UK has a competitive advantage, such as Artificial Intelligence, quantum computing and robotics, while also supporting strong sectors like manufacturing and design.

Additional changes to qualifying costs

For accounting periods starting on or after 1 April 2024, subcontracted R&D work and the cost of externally provided workers (EPWs) is limited to work done in the UK.

There are some exemptions. R&D activity will still likely qualify when there are material factors like geography, environment or other conditions that are not present in the UK but are required for the research.

For example, deep-ocean research or clinical trials can only take place legally outside the UK.

Ineligible costs

R&D tax credits are only available for the expenses that are specified above.

Some regular expenditures that you can't claim for include:

- The expenses of any and all commercial activities required to bring a product to market.
- Land.
- Producing and distributing products and services.
- Using a third party's patent, or creating one yourself.

When does the R&D activity start and finish?

The R&D activity starts when you begin working to resolve the uncertainty and ends when you solve the uncertainty or stop working on it.

How much R&D tax can I claim?

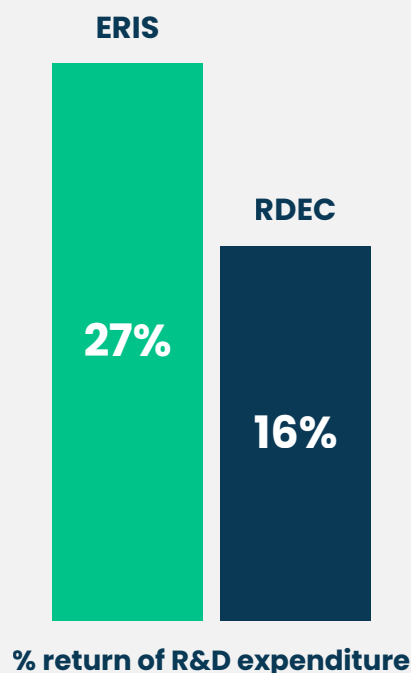
From 2025, the R&D tax credit landscape changed. While the SME and RDEC schemes remain in place for accounting periods prior to 1 April 2024, new rules will apply for accounting periods on or after 1 April 2024.

Essentially, the **SME scheme is becoming a legacy scheme**, with no new claims being made under this scheme for accounting periods starting on or after 1 April 2024.

From 1 April 2024 onwards, the **merged R&D Expenditure Credit (RDEC) scheme** replaced the **SME scheme**, offering a unified framework for both SMEs and large companies. This new scheme offers loss-making businesses up to 16.2% relief on qualifying expenditure, with most receiving companies receiving 15% relief.

The merged scheme will run along the **Enhanced R&D Intensive Support (ERIS)** scheme, which is for loss-making R&D-intensive SMEs (businesses that invest **30% or more of their total expenditure on R&D**). This scheme offers up to **27% relief**.

How much you receive back depends on company size, financial position, and the amount you spent on R&D.



Timeline of rate changes

In recent years, there have been changes to the R&D tax relief scheme, particularly regarding the rates. And this is due to continue into 2024. Below is the chronology of rate changes and the implementation of the merged scheme.

	SME Scheme		RDEC Scheme		Merged Scheme
Time scale	Up to 31/03/2023	From 31/03/2023	Up to 31/03/2023	From 31/03/2023	From 01/04/2024
Profit-making company	130% enhancement = 24.7% net benefit	86% enhancement = 21.5% net benefit	RDEC rate 13% = 10.5% after tax	RDEC rate 20% = between 14.7% - 16.2% after tax	Rate 20% = between 14.7% - 16.2% after tax
Loss-making company	R&D costs plus 130% enhancement = $230 \times 14.5\%$ rate = 33.4% credit	R&D costs plus 86% enhancement = $186 \times 10\%$ rate = 33.4% credit	10.5%	15%	16.2%
Loss-making R&D intensive company	NA	R&D costs plus 86% enhancement = $186 \times 14.5\%$ rate = 33.4% credit	NA	NA	NA

What is an R&D-Intensive SME?

Although the SME scheme's generosity declined starting April 2023, and the merged scheme will continue to be less generous for SMEs from April 1, 2024, there is a glimmer of hope for R&D-intensive SMEs.

What is an R&D-intensive SME?

From 1 April 2023, an R&D-intensive SME is a company where qualifying R&D expenditure is at least 40% of total expenditure.

Starting 1 April 2024, the definition will change. An R&D-intensive SME will be defined as a company with a qualifying R&D expenditure of at least 30% of total expenditure.

How much will an R&D-intensive SME receive?

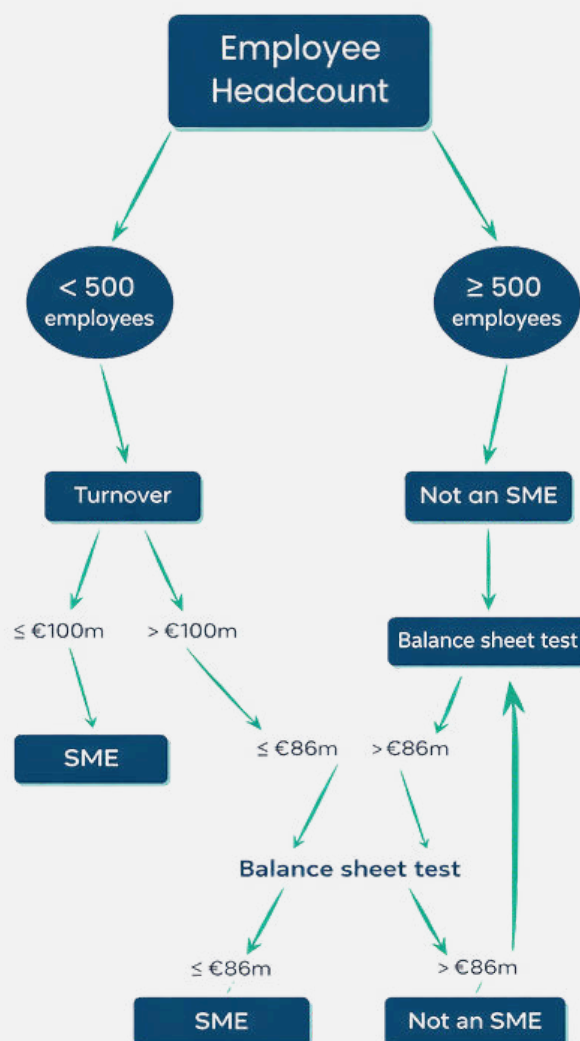
An R&D-intensive SME will be able to claim a higher payable R&D tax credit rate of **14.5%** (rather than the reduced 10%).

This means that loss-making R&D-intensive SMEs will receive a cash credit of £27 for every £100 spent on R&D expenditure instead of the reduced rate of £18.60 available to non-R&D-intensive SMEs.

The company size test

Currently, if your business has fewer than 500 staff and a turnover of under €100m or a balance sheet total under €86m, then you can likely claim through the SME scheme.

If your company exceeds those limits, then you should claim using the RDEC scheme. Note that the limits are in euros because the HMRC rules have been adapted from European-wide rules.



Subcontracting SMEs

If you were subcontracted to perform R&D for a larger company, you would have to claim through the RDEC scheme. This is because the cost of the subcontracted activity will contribute to the contracting company's R&D expenditure. HMRC apply this condition to stop excessive subsidisation of the same activity.

SMEs owned by big companies

Partner enterprises

If a larger business owns your SME, you may need to claim through the RDEC scheme. If your SME is 25–50% owned by a larger company, they are classified as a “partner enterprise,” and their assets, balance sheet and employee count will proportionately contribute to your own. For example, if your SME is 33.33% owned by a company with 1,500 employees, your employee count would be 500 + your company's headcount.

Linked enterprises

Alternatively, if your SME is more than 50% owned by a large company, then the total size of that business will apply to your calculation.

The business will be classified as a “linked enterprise.” In this case, the entire total of their assets, balance sheet and employee count will apply to your company's profile when choosing which R&D scheme applies. If you don't know whether you are a partner or a linked enterprise, consult the EU criteria for SMEs (to which HMRC has applied) or get in touch with one of our team members.

Grant Recipient

If your grant counts as ‘notified state aid’, you may need to claim it entirely or partly through the RDEC scheme. Most government-backed grants will qualify as notified state aid, although there are some exceptions.

Additionally, the proportion of qualifying expenditure that needs to be claimed through the RDEC scheme will depend on three things: the number of projects, the financial backing of those projects, and the nature of the way the grant is received. Find out more in our [guide to grants and R&D relief](#).

Dividing up your claim between the two schemes can be difficult. If you require help dividing your claim between the two schemes or don't know which scheme you should apply for, get in touch with one of our advisors.

How to make an R&D tax credit claim

There are four ways to make a claim for R&D tax credits. Here we outline the costs and benefits of each.

	Self-file	Accountant	Traditional Advisor	EmpowerRD
Methodology	Build and submit the claim yourself	Typically a pre-built template or questionnaire	Phone interviews and email chains, or an in-person business visit	Advisors available over phone, email and live chat. Online data collection 24/7
Expertise	Requires R&D credit expertise in your business	Low-level	Mixed	High: ex-HMRC inspectors and senior R&D claims assessors
Process	Self assessment	Varies	Time consuming, no technology, high-cost.	Combine expert R&D claim advisors with an intelligent online platform to ensure a quick, seamless experience & fully optimised claim.
Typical claim duration	Varies	2-3 months	1-2 months	1-2 weeks
Price	Varies	Varies	10% - 33%	5% or less
Suitable claim size	Up to £50k costs	Up to £50k costs	Varies	Over £50K costs

How long does it take to receive the funds?

HMRC aim to pay out 95% of R&D tax credit claims within 40 days of receiving the claim.

If you want to avoid the uncertainty of not knowing when your money will arrive from HMRC, or if you need funds right away, we recommend choosing R&D advance funding.

R&D Advance Funding

With R&D advance funding you can receive up to 80% of your R&D tax relief up to 9 months before you file your claim, helping you plan your cash flow accordingly and reinvest the funds back into your business sooner.

To learn more about how R&D advance funding works, we recommend reading our guide on R&D advance funding.



How to optimise your claim

You should now have a thorough understanding of the R&D Tax Credit Scheme, as well as how to apply for it. Here are some pointers to help you get the most out of your claim!

To maximise your R&D tax credit claim, you should set up best practices. This means maintaining sound documentation, financial discipline, technical knowledge, and a thorough understanding of the scheme.

Without adopting best practices, your claim could lack the robustness and accuracy

necessary, which could result in an enquiry from HMRC, delaying your funds by months.

It's for this reason that a lot of companies choose to claim with R&D tax credit specialists like EmpowerRD.

However, there are still a lot of companies that claim by themselves, so here are 5 tips for maximising your R&D tax credit claim and making sure it's compliant, robust and fully optimised.

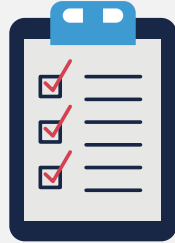
Tip 1: Record your challenges as you go

Rather than frantically trying to remember everything at the end of your financial year, make sure to keep a record of the challenges that you came across throughout the year.

We know that a claim is often an afterthought for many businesses. But getting into the habit of recording what the challenge was, why you think it was a challenge and what you did to resolve it throughout the year will make sure your claim is robust, optimised, and it will save you the last-minute stress. This doesn't need to be every week. Each quarter should be fine. Just put a reminder in your diary!

If you choose to work with an R&D specialist, make sure you use one that has an online platform. Companies who have claimed with EmpowerRD find our online platform a great tool for keeping records. They can log in, note down their challenges and then get on with innovating.

When it's time to claim, they have everything they already need on the platform, which drastically speeds up the claims process.



Tip 2: Know what is and isn't eligible to claim for

It can be quite daunting and difficult to know what you can and can't claim for when making your first claim. Hopefully, this guide and our qualifying expenditure section have left you feeling more confident.

Even so, there are still some common mistakes that a lot of first-time claimers make.

For instance, many include expenses that fall outside of their financial year. When you claim, remember that the costs you are claiming for should fall within your financial year, not HMRC's. You will not be eligible to claim for expenses outside of your financial year.

If you hire a professional R&D advisor, they will be able to walk you through all of your eligible expenses and perhaps even find some that you didn't know you could include.

When we first worked with Bloom & Wild, we looked back at their previous claim and increased their credit by 290%.



Tip 3: Track all eligible costs

It's critical to keep track of your eligible expenses over the financial year, in the same way that it's important to keep track of your challenges.

Make sure you track every hour and unit of staff and materials. It will make your claim so much faster and you won't have the stress of trying to remember how much percentage of a staff's salary you should attribute to R&D.

Also, you won't run the risk of claiming for expenditure that falls outside of the financial year! And you won't run the risk of missing out on eligible costs.



Tip 4: Write a compelling technical narrative

The R&D technical narrative is used to explain how your activities and projects qualify for R&D tax credits. To do this, it needs to demonstrate the complexity of your project, highlighting the technical difficulties and the outcomes achieved.

It's at this point that things really start to add up, and if you can't persuade HMRC, you might end up with an enquiry or have your claim rejected. Writing a compelling narrative for HMRC inspectors is a challenge for someone who hasn't done it before, which is why a lot of businesses go with expert R&D advisors.

At EmpowerRD, we make the process of building a technical narrative much easier. Our intelligent platform eliminates the need for lengthy interviews by capturing your technical data with 4 open-ended questions. You just need to provide a few bullet points for each open-ended question. This also helps it to align with HMRC's guidance.

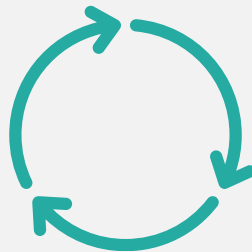


Our tax specialists will then write your technical narrative to make it compliant for HMRC, using their expertise to make it as robust and optimised as possible. They will also remove any irrelevant information.

Tip 5: Check and check again

Last but not least, be sure to thoroughly review your claim before submitting it. Don't be the person who didn't notice the last question on the back of the exam paper. Double-check that all your calculations are connected back to your P&L, as well as tax calculations and the CT600.

There's nothing more important to HMRC than the numbers adding up! All expenses must be matched and consistent so that HMRC can determine which costs are where.



FAQs

Can you fail and still claim?

HMRC say nothing about success in their definition of R&D. That's because a project doesn't need to succeed in order to qualify for R&D tax credits. The project is meant to be challenging to achieve, and failure is a good indicator of this.

When does R&D start and finish?

HMRC states that R&D work starts when a specific project seeks to make an advance in science or technology and ends when the project overcomes that scientific or technological uncertainty.

Can I claim R&D tax credits every year?

Yes, you can claim R&D tax credits every year so long as you have undertaken R&D activities within that year's accounting period.

What happens if I make a mistake in my claim?

If you make a mistake in your claim, you could face an enquiry from HMRC. This is why it's vital that you check and check again before filing. Numbers not adding up is a big red flag for HMRC.

How far back can I claim R&D tax credits?

You can claim R&D tax credits up to two years after the end of your accounting period. To make the most of your claim, you must include all qualifying expenditure incurred during the financial period you're claiming for before the two year period is over.

If you have more questions about the scheme you can visit our [FAQs](#) section.

About EmpowerRD

We've radically improved the process of making an R&D tax credit claim.



empowerrd.com

At EmpowerRD we employ industry-leading R&D claims advisors and ex-HMRC inspectors to assess your claim and help you identify your costs, while also providing an intelligent online platform to help you to co-ordinate the claim amongst your team.



[0800 464 7143](tel:08004647143)

If you're an SME and claiming back on more than £50k of costs, or you're applying through the RDEC scheme, then it makes sense to use EmpowerRD for your claim.



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[Get in touch](#) to find out more or book a call for a time that suits you.

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