LEYTON

# THE COMPLETE GUIDE TO R&D TAX CREDITS

## *2026 EDITION*

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WELCOME TO

# The Complete Guide to R&D Tax Credits

*2026 EDITION*

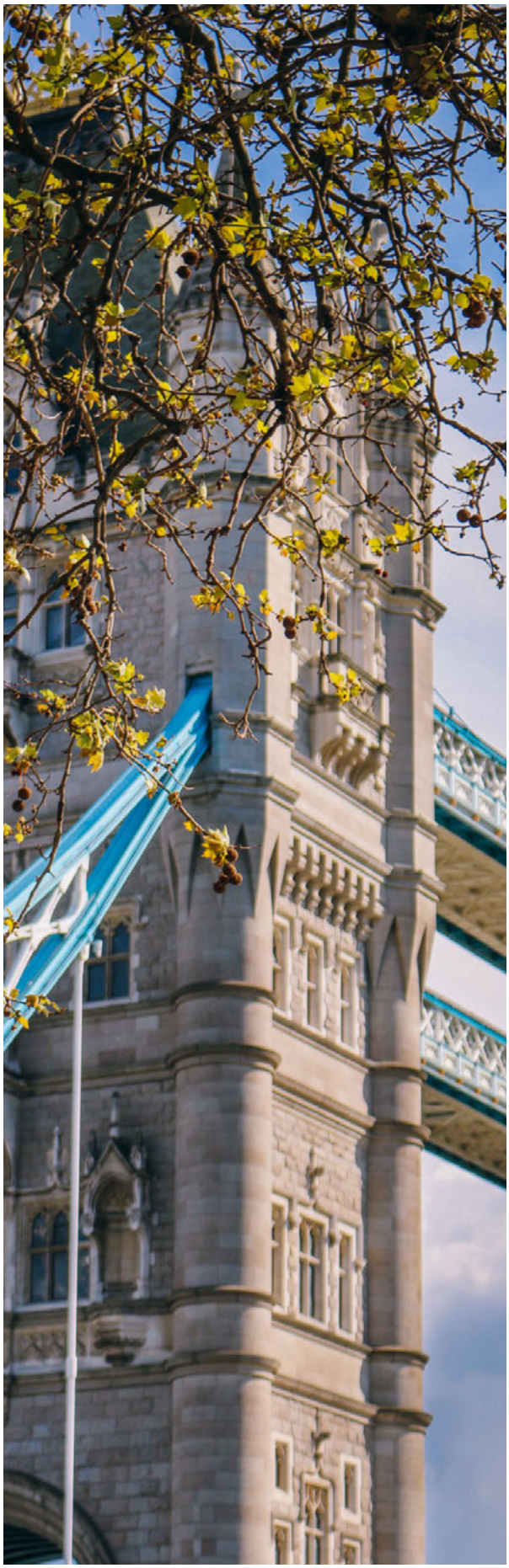
R&D is one of the biggest drivers of growth in the UK. Innovation makes us more competitive as a nation. Not only does it encourage investment, it delivers solutions to society's biggest challenges, from decarbonisation to curing deadly diseases.

Because of the clear benefits to our economy, the government offers financial support through R&D Tax Credits. The scheme is hugely popular. In fact, in the 2023-24 tax year (which saw £46.1 billion of qualifying R&D expenditure) businesses successfully claimed £7.6 billion in R&D tax relief.

While many organisations make the most of the scheme, some are put off from claiming by the complex rules. Others are simply worried about making a mistake and don't want to risk being penalised by HMRC. A worrying number also don't realise that their hard work is eligible for tax relief!

That's why we've written this booklet: to give businesses like yours a solid understanding of how to claim valuable tax relief for your research and development projects. You'll find clear explanations of what R&D activities qualify as well as best practice advice for preparing a robust claim.

We hope you find it useful but if you have any questions, please just let us know. We're here to help.



# 1. UNDERSTANDING R&D TAX CREDITS IN 2026

*For the last 28 years, R&D Tax Credits have allowed companies to reduce their taxable profits or claim a credit based on what they've spent on certain eligible R&D activities.*

**In recent years, there have been two R&D Tax Credits schemes:**

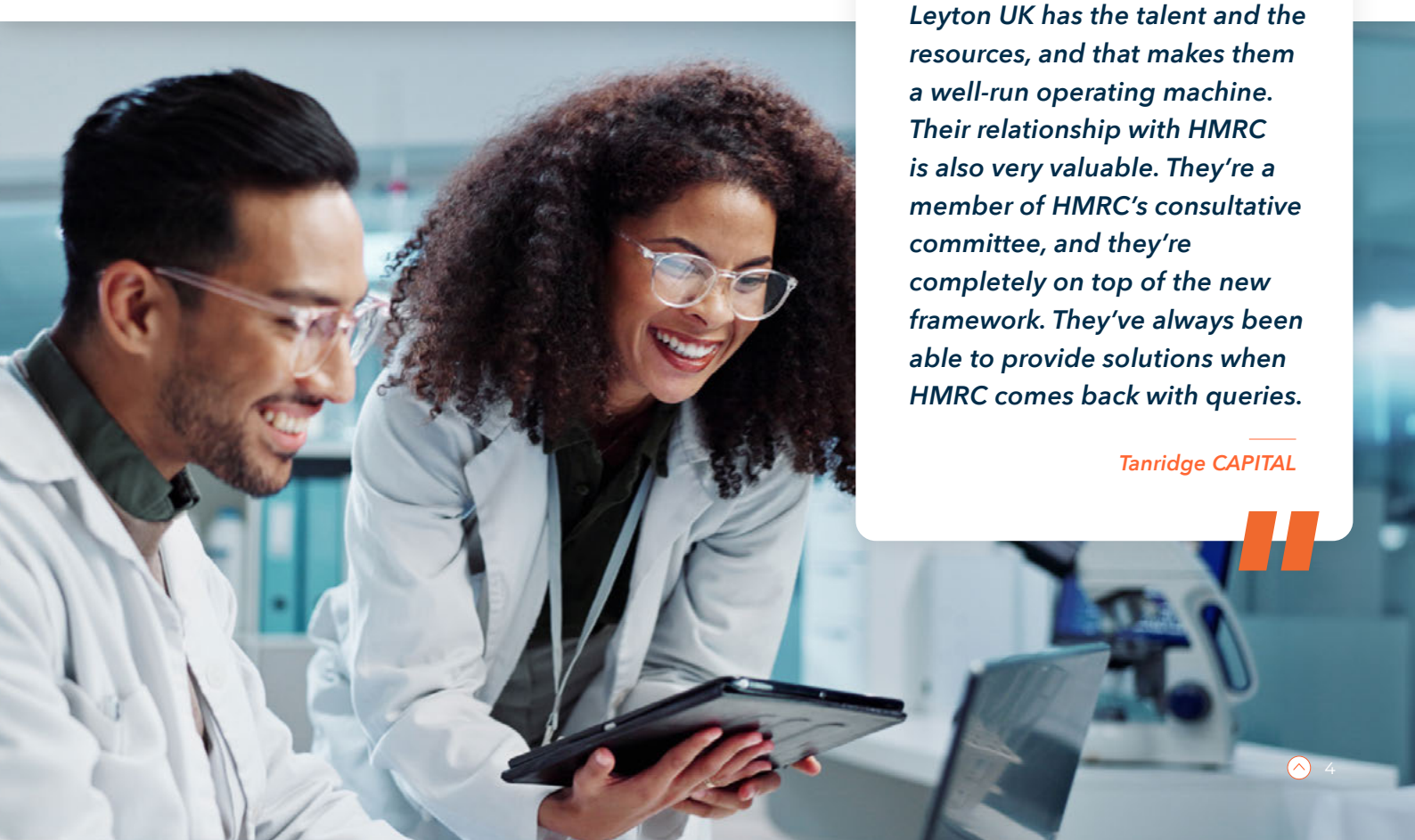
- *R&D SME scheme*
- *Research and Development Expenditure Credit (RDEC)*

**But for accounting periods starting from 1 April 2024 two new schemes have been created:**

- *Merged scheme R&D expenditure credit (Merged Scheme)*
- *Enhanced R&D intensive support (ERIS)*

Companies will start using the new schemes at different points during 2025, depending on their accounting period.

For example, companies with a year-end of 31 March will begin using the new schemes for their accounting period ending 31 March 2025. Companies with a year-end of 31 December will begin using the new scheme for their accounting period ending 31 December 2025.



> ***Leyton UK has the talent and the resources, and that makes them a well-run operating machine. Their relationship with HMRC is also very valuable. They're a member of HMRC's consultative committee, and they're completely on top of the new framework. They've always been able to provide solutions when HMRC comes back with queries.***
>
> *Tanridge CAPITAL*

# 2. CLAIMING R&D TAX CREDITS

*You can claim R&D Tax Credits if you currently pay UK Corporation Tax (CT), as long as you have a qualifying project. So, what qualifies?*

In essence, your project will qualify if you have tried to make an advance in a field of science or technology.

**So, if you're working on a product, service, material or device and you've tried to:**

- **Invent** something new
- **Improve** something that already exists
- **Discover** something that will add to our overall knowledge

...then you're likely in a good position to think about making a claim.

**You won't be able to claim if:**

- you are not subject to CT
- your advance is for only your business and not the whole field
- you've just made routine improvements or adaptations
- your advance was in the arts, humanities or social sciences (including economics)

## What counts as a project?

A qualifying "project" begins when you start working to resolve a scientific or technological uncertainty. It ends when you've overcome that uncertainty, or when you've achieved the advance you were aiming for. Your project must take a systematic approach, so you can't just stumble across the solution by accident.

Commercial uncertainties, like finding a market for your new product or service, don't qualify for R&D relief.

## What counts as an advance?

You'll have made an "advance" if you've created something better, or learned something more than what existed before.

The litmus test is that competent professionals working in the same field wouldn't easily be able to work out your solution. You must have also faced a significant degree of technological or scientific uncertainty (i.e., you couldn't overcome the uncertainty using existing knowledge).

## What counts as science or technology?

If you think that "a field of science or technology" sounds quite broad, the good news is that it is! Companies often make qualifying innovations without realising it, as they naturally invest in developments to make themselves more competitive.

In other words, you don't have to be wearing a laboratory coat to be involved in R&D. R&D is a diverse activity that happens in offices and factories right across the UK.

**So, if the definition is so broad, what is meant by science or technology?**

- **Science** involves studies of our physical universe, like physics and applied sciences such as biomedical science, materials science, environmental sustainability, climate change, computer science, sports science and other similar studies.
- **Technology** applies scientific knowledge practically, such as in agriculture, software programming, pharmaceuticals, construction, manufacturing, or engineering.
- **Mathematics** advances with practical applications are also treated as scientific advances, so innovative work in areas like designing algorithms data modelling and data encryption can also be claimed for.

## What expenses qualify for relief?

Any qualifying expenses must directly contribute to resolving scientific or technological uncertainty, such as planning, designing, testing, and creating or adapting necessary software, materials, or equipment. This can also extend to the people and power you've used as part of your work.

**Our infographic explainer below lists all of the different expenses that qualify for relief.**

| Expense | Description |
|---|---|
| **Staff** | Staff costs include employee or director salaries, wages and any profits other than benefits in kind, secondary class 1 National Insurance contributions and employee pension fund contributions. |
| **Consumables** | Materials that have been exhausted or transformed so that they are no longer usable during R&D, including water, fuel and any type of power.<br>E.g., raw materials, lab chemicals or components that have been incorporated into prototypes and not sold onto a final customer. |
| **Subcontracted work** | You can claim 65% of the costs of UK-based subcontractors for activities related to R&D.* |
| **Externally provided workers (EPWs)** | You can claim 65% of wage costs of UK-based EPWs involved in your R&D activities.<br>Connected EPW costs are allowable, but they must be paid through a UK payroll.* |
| **Software** | The cost of computer software used for R&D projects can be claimed. |
| **Cloud computing** | You can claim for the cost of using cloud computing services, such as when you're using remote servers to store data or run software applications. |
| **Data licences** | This includes paying for datasets and data analytics that are used specifically for R&D (so you can't claim if you then commercially publish or sell the data). |

**Rules restricting claims for overseas expenditure came into effect for accounting periods beginning on or after 1 April 2024 (you may still be able to claim for eligible overseas expenditure that occurred before this period). There are some exemptions that allow you to use overseas support for when it's not possible or practicable to undertake the R&D work in the UK.*

## Expanded qualifying expenditures

Three types of qualifying expenses are commonly overlooked, most likely because they were only introduced in the last few years (for accounting periods beginning on or after 1 April 2023).

Make sure that your business doesn't miss out on these valuable categories of eligible spend:

### Cloud Computing

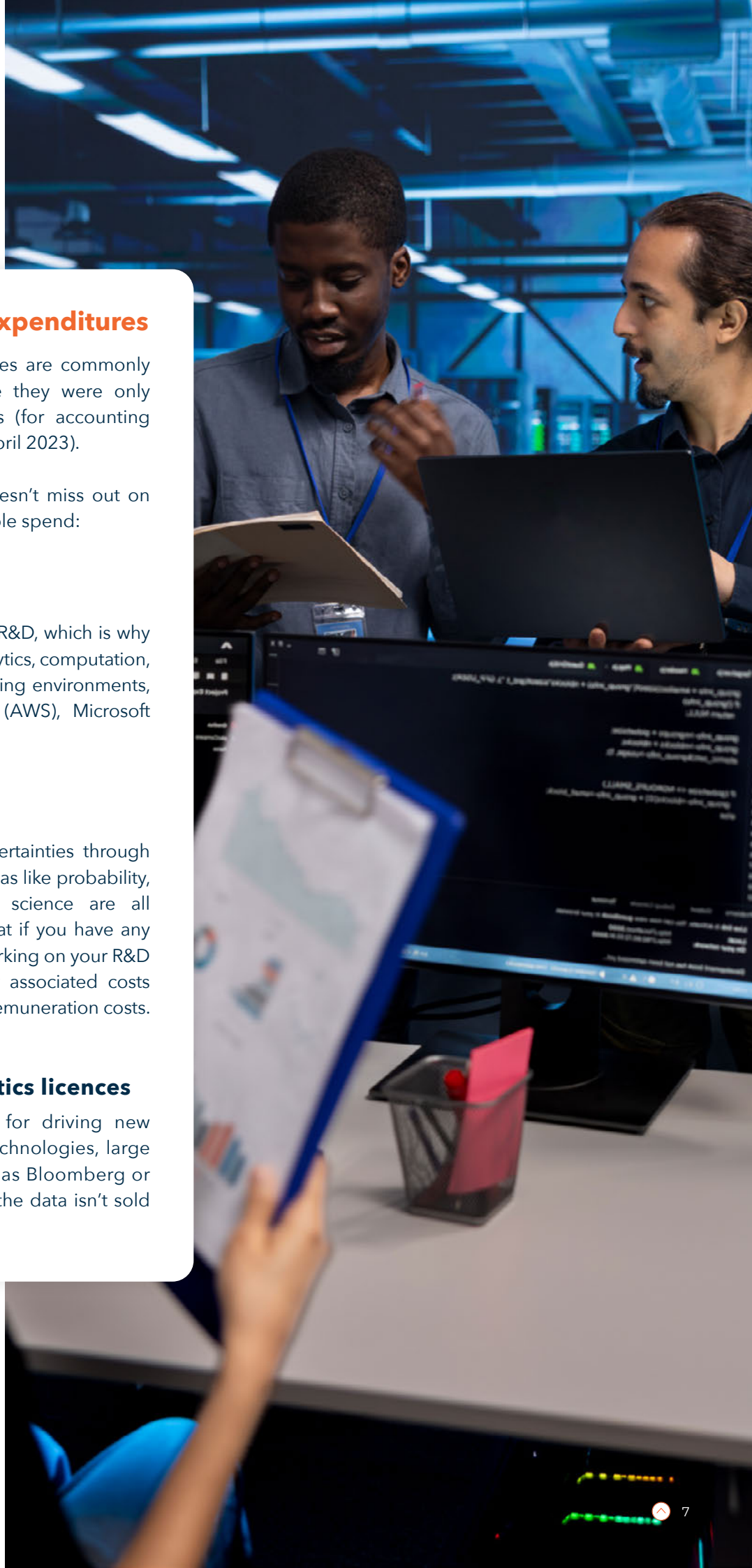
Cloud storage is very common in R&D, which is why spending on data processing, analytics, computation, and software within cloud computing environments, such as Amazon Web Services (AWS), Microsoft Azure, etc., all qualify for tax relief.

### Pure Mathematics

Projects that have overcome uncertainties through mathematical advancements in areas like probability, statistical analysis or computer science are all potentially eligible. This means that if you have any data scientists or programmers working on your R&D projects, you can likely claim for associated costs including their salaries and other remuneration costs.

### Dataset and data analytics licences

As data has become essential for driving new algorithms and computational technologies, large datasets from third parties, such as Bloomberg or Nielsen, are eligible – as long as the data isn't sold for commercial purposes.



## Overseas expenditure

In the past, companies could claim for overseas expenditure but new rules were put into effect for accounting periods beginning on or after 1 April 2024. Now, you can generally only claim for R&D work that has taken place in the UK.

The new rules also affect work that's contracted out, as you can only claim for subcontracting and externally provided workers (EPWs) if they've been paid through a UK payroll. The restrictions have been introduced to make sure that tax relief drives innovation here in the UK, but there are some exemptions.

### Qualifying Overseas Expenditure (QOE)

For your overseas R&D activity to qualify, you must meet the following three requirements:

**1 The necessary conditions for the R&D are absent in the UK**

There may be geographic, environmental, social or other conditions that don't exist in the UK, so you would need to carry out the work in a country that has the right conditions.

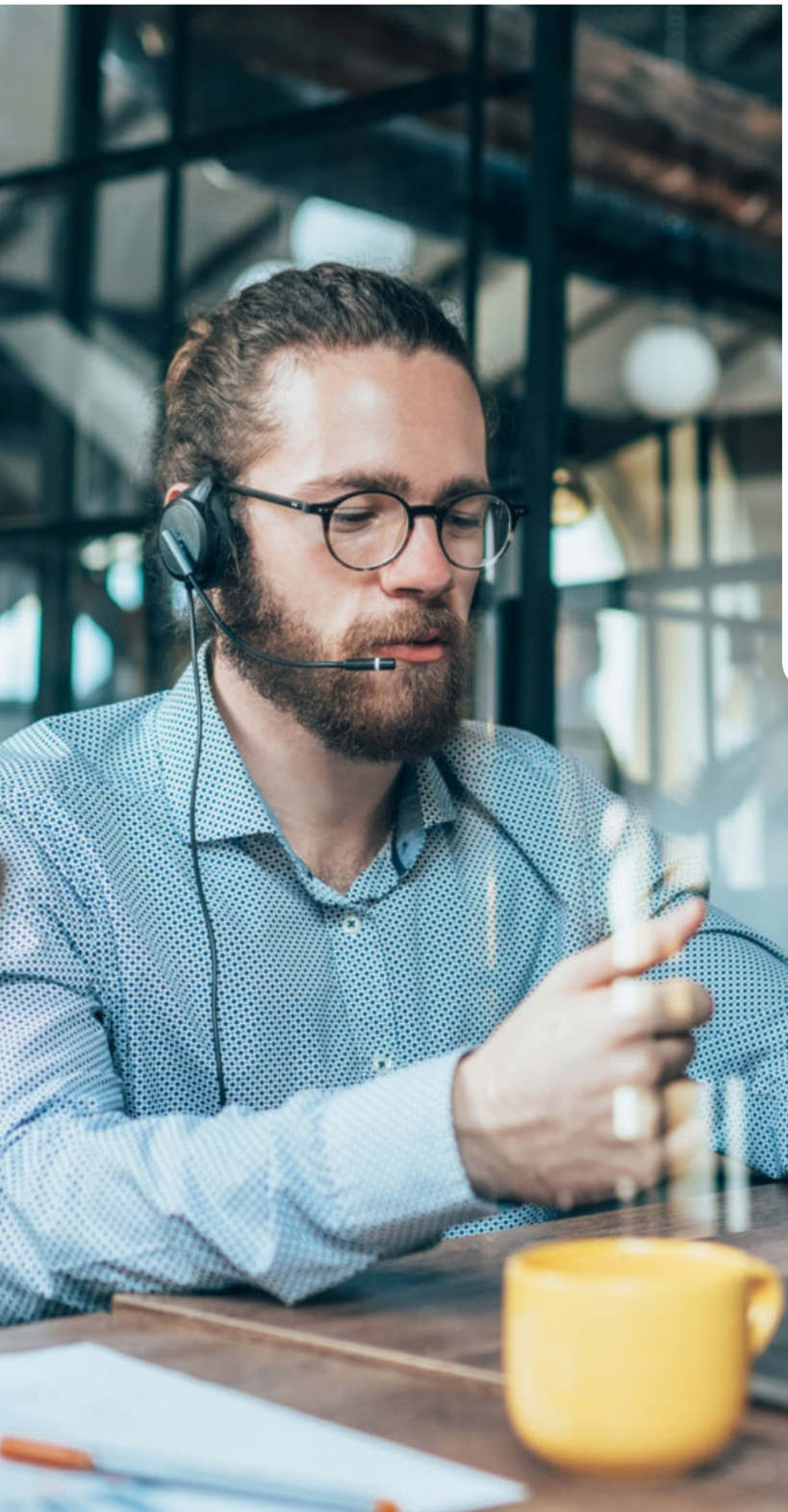
**2 The location where the R&D takes place has those necessary conditions**

For condition-specific R&D you'll need to choose a country where you can successfully carry out the work. For example, if you were testing an improved volcano early-warning system you'd have to complete the work in a country with active volcanoes like Indonesia or Iceland.

**3 Replicating those conditions in the UK would be "wholly unreasonable"**

If you needed specialised facilities and machinery for the work but this machinery and the expertise to operate it was only available abroad, the only reasonable option would be to do the work overseas.*

**Cost savings aren't a valid reason for using overseas contractors, or for conducting R&D abroad.*



### LEYTON TIP

*Be prepared for HMRC to scrutinise any overseas R&D activity that you plan on claiming for. Make sure that you have detailed records and explanations that demonstrate why the conditions for R&D aren't present or replicable in the UK.*

## What indirect expenses can be claimed?

HMRC makes allowances for indirect expenses as long as they form part of a qualifying R&D project.

**Eligible indirect expenses include:**

- *Scientific and technical information services (e.g., report writing)*
- *Maintenance of essential R&D equipment (e.g., computers or machinery)*
- *R&D-related security*
- *Admin and clerical activities*
- *Finance and personnel activities*
- *University research*
- *Research or data collection for new testing, surveying or sampling methods*
- *Feasibility studies*

## What expenses are ineligible?

**There are some costs that you can't claim R&D Tax Credits for. These include:**

- *Producing, marketing or distributing your products or services*
- *Buildings*
- *Land*
- *Creating patents and trademarks*

If you're hoping to claim on buildings, or other capital assets, there is a separate ***Research and Development Allowances (RDA)*** scheme that can support your company with a 100% first-year tax deduction against your annual profits.

There is also a ***Patent Box*** scheme that offers a lower rate of Corporation Tax of 10% on profits from patents.

## How does apportionment work?

Qualifying costs (direct or indirect) must be apportioned reasonably.

**For example:**

- *If one of your engineers spends 50% of their day on R&D, only claim 50% of their salary*
- *If you purchase software that is used 25% for R&D and 75% for everyday business activities, only claim 25% of the licence cost*

### LEYTON TIP

*Plan ahead! Hold on to important documents like receipts, project plans, emails, contractor contracts, timesheets, meeting minutes, research logs, technical schematics and any other evidence for your claim.*

# 3. CALCULATING R&D TAX CREDITS

*Below, we explain the basics around how to calculate your R&D Tax Credits benefit.*

***For accounting periods starting before 1 April 2024, you'll be claiming through either the RDEC or R&D SME scheme.***

## R&D Expenditure Credit (RDEC)

RDEC is a tax credit for large companies and some SMEs.

**To calculate your credit:**

1. *Add up your R&D expenses*
2. *Multiply this figure by 20%*

The credit is subject to CT. For example, if you pay the main rate of 25%, the net benefit to your company will be 15%. If you pay the small profits rate of 19%, the net benefit will be 16.2%.

### LEYTON TIP

*Most businesses underestimate their qualifying spend! Worried about missing out on tax relief? Speak to one of our specialists. You'll be surprised by what savings they can uncover.*

## R&D SME scheme

The R&D SME scheme is for companies whose headcount is less than 500 with a turnover of under 100 million euros (or a balance sheet total of under 86 million euros).

**To calculate your tax relief:**

1. *Add up your R&D expenses*
2. *Multiply your total R&D expenses amount by 86% (this will be your "additional R&D relief deduction")*
3. *Multiply your total R&D expenses amount by 186% (this will be your "enhanced expenditure amount")*

If your company is profit-making, your benefit will be your qualifying expenditure multiplied by 86% multiplied by your applicable CT rate (e.g., 25% main or 19% small profits).

**If your company is loss-making, you can give up the lower of these in return for a payable credit:**

- *Your enhanced expenditure amount*
- *Your total loss (after you've taken the additional R&D relief deduction)*

If your company is considered R&D intensive, where your R&D spend is at least 40% of your total expenditure, the payable credit is worth 14.5% of the amount you've given up. Otherwise, it's 10%.

***For accounting periods starting from 1 April 2024, you'll be claiming through either the merged R&D scheme or ERIS.***

## Merged R&D scheme

Both large companies and SMEs can claim using the merged R&D scheme.

**To calculate your tax relief:**

1. *Add up your R&D expenses*
2. *Multiply this figure by 20%*

The credit is subject to CT. For example, if you pay the main rate of 25%, the net benefit to your company will be 15%. If you pay the small profits rate of 19%, the net benefit will be 16.2%.

## ERIS

ERIS is for loss-making SMEs whose R&D spend is at least 30% of its total expenditure.

If your company is loss-making, you can give up the lower of these in return for a payable credit of 14.5%:

**To calculate your tax relief:**

1. *Add up your R&D expenses*
2. *Multiply your total R&D expenses amount by 86% (this will be your "additional R&D relief deduction")*
3. *Multiply your total R&D expenses amount by 186% (this will be your "enhanced expenditure amount")*

## PAYE cap

For the R&D SME scheme, ERIS, and the merged R&D scheme, the benefit you receive can't exceed the PAYE cap, which includes 300% of your company's relevant PAYE and NIC liabilities plus £20,000.

If your benefit exceeds this cap under the merged R&D scheme, you can carry the excess forward as a credit for claiming in the next accounting period.

## Example calculations

Below are some example R&D tax relief calculations, to help you understand how much your own business may be able to claim.

| | R&D Expenditure Credit / Merged R&D Scheme | |
|---|---|---|
| | Large Profits | Small Profits |
| Qualifying Expenditure | £ 100,000.00 | £ 100,000.00 |
| RDEC Rate | 20% | 20% |
| Gross RDEC Credit | £ 20,000.00 | £ 20,000.00 |
| Corporation Tax Rate | 25% | 19% |
| Net RDEC Credit | £ 15,000.00 | £ 16,200.00 |
| Effective RDEC Benefit | 15% | 16.20% |

| | SME Scheme | | |
|---|---|---|---|
| | Profits Making | Loss Making (not R&D Intensive) | Loss Making (R&D Intensive) |
| Qualifying Expenditure | £ 100,000.00 | £ 100,000.00 | £ 100,000.00 |
| Additional Deduction | £ 86,000.00 | £ 86,000.00 | £ 86,000.00 |
| Enhanced Expenditure | £ 186,000.00 | £ 186,000.00 | £ 186,000.00 |
| Trading Profit / (Loss) - Pre-R&D | £ 500,000.00 | (£ 200,000.00) | (£ 200,000.00) |
| CT Payable | £ 125,000.00 | £ - | £ - |
| Trading Profit / (Loss) - Post-R&D | £ 414,000.00 | (£ 286,000.00) | (£ 286,000.00) |
| CT Payable | £ 103,500.00 | | |
| Tax Credit | | £ 18,600.00 | £ 26,970.00 |
| Tax Benefit | £ 21,500.00 | £ 18,600.00 | £ 26,970.00 |
| Effective Benefit Rate | 21.50% | 18.60% | 27.00% |

# 4. MAKING A PRE-CLAIM NOTIFICATION

If your company is claiming R&D Tax Credits for the first time or if you haven't claimed in the last three accounting periods, you'll need to submit a claim notification online.

You have to tell HMRC within six months of the end of the accounting period that you plan on claiming. If you don't apply in time, you'll miss out on being able to claim your R&D tax relief even if you're eligible.

**LEYTON TIP**

*Not sure if you can make a claim? We'd still recommend that you send HMRC a claim notification. There's no penalty for changing your mind, so you've got nothing to lose.*

**To complete your claim notification, you'll need:**

- *Your company's Unique Taxpayer Reference (UTR)*
- *The accounting period dates for which you are claiming the R&D relief (matching your Company Tax Return)*
- *The period of account dates*
- *Details for the main R&D contact responsible for the R&D claim (e.g., a company director)*
- *Details for any external agents involved in the R&D claim*
- *Top-level descriptions of qualifying R&D projects and activities*

# 5. PUTTING TOGETHER AN R&D TAX CREDITS CLAIM

## What information is needed for a claim?

To submit an R&D Tax Credits claim, you'll need to prepare what's known as "Additional Information Form" (AIF), which includes:

### Contact details

- *Details for the main R&D contact responsible for the R&D claim (e.g., a company director)*
- *Details for any external agents involved in the R&D claim*

### Company details

- *Your company's Unique Taxpayer Reference (UTR)*
- *VAT registration number*
- *Employer PAYE reference number*
- *Business type – your current SIC (Standard Industrial Classification) code*

### R&D details

- *The accounting period dates for which you are claiming the R&D relief (matching your Company Tax Return)*
- *A breakdown of qualifying R&D activities and costs*
- *R&D project details (the technical report)*
- *Any relevant supporting information*

## What should be included in technical reports?

Your technical report is how you justify the expenses your company is claiming for. To assess your claim, HMRC will need to see an appropriate level of project detail but if you're claiming for more than three projects, you won't need to include information for every single project.

**The guidelines for how many projects you have to describe are as follows:**

**1 to 3 projects:** describe all the projects that cover 100% of the qualifying expenditure.

**4 to 10 projects:** describe those that account for at least 50% of the total expenditure, with a minimum of 3 projects described.

**11 to 100 (or more) projects:** outline the projects that make up at least 50% of the total expenditure, ensuring a minimum of 3 projects are detailed. If the qualifying costs are distributed among numerous smaller projects, describe the top 10 with the highest expenditure.

**For the projects that you're including, provide a thorough description that covers each of the following areas:**

- *The field of science or technology that your project relates to.*
- *The baseline (i.e., existing) level of science or technology.*
- *The advance you aimed to achieve (e.g., creating or improving a process, material, device, product or service, or using science or technology to replicate the effect of an existing process in a new or improved way).*
- *The scientific or technological uncertainties that you faced. You'll need to explain why these uncertainties were not just specific to your company but were also relevant to the wider industry.*
- *How your project sought to overcome these uncertainties. Describe the methods that you used or planned to use and whether the uncertainties were resolved. If so, how? If not, why not?*
- *A breakdown of qualifying expenditure for each project (including both direct and indirect costs).*

## What supporting information should be included?

Supporting details about your projects will really strengthen your claim against HMRC scrutiny. These might include:

### 1 The claim methodology

Outline how you determined which activities and expenses qualified for R&D tax relief. Try to be precise, explaining your rationale behind each decision.

### 2 Use of sampling

If you use sampling to estimate costs, describe your sampling method and why it's appropriate for your situation. Also, give information on how often you conduct these samples and how they're representative of your overall R&D activities.

### 3 Details of competent professionals

Include information about the competent professionals who were able to recognise your project's scientific or technological uncertainties and advances.

# 6. APPLYING FOR ADVANCE ASSURANCE

SMEs making their first ever R&D tax relief claim can voluntarily apply for advance assurance, which allows them to check upfront with HMRC to see if their claim will be accepted.

If the application is approved, the SME will then be given an 'advance assurance agreement' guaranteeing that the claim will be accepted (as long as the eventual claim matches what was originally provided).

### HMRC will need the following details for an application:

- *Basic company information*
- *Company registration documents*
- *Company accounts*
- *Contact details of someone with knowledge of the R&D work (e.g., research lead or director)*
- *Detailed description of R&D projects, including how they have attempted to overcome a scientific or technological uncertainty*
- *Breakdown of all R&D-related costs*
- *Any previous correspondence with HMRC related to an advance assurance application*

### SMEs can apply for advance assurance if:

- *It's their first R&D relief claim*
- *Turnover is below £2 million*
- *They have less than 50 employees*
- *R&D work is planned*
- *R&D work has been completed, but not claimed for*
- *They're part of a group where none of the companies have previously claimed R&D relief.*

## Spring 2026 advance assurance pilot scheme

From Spring 2026 there will be a new targeted advance assurance pilot scheme. Any SME planning to claim R&D relief can apply to take part, even if they're not first-time claimants.

### During the pilot, applicants will be able check:

- *Does the project meet the definition of R&D for tax purposes?*
- *Does overseas expenditure qualify for relief?*
- *Which party can claim relief for contracted-out expenditure?*
- *Does the company qualify for exemption from the PAYE or NICs cap?*

The pilot has been put in place after calls for more accessible and focused assurance, particularly on complex or high-risk aspects of claims. While the pilot takes place, the existing advance assurance scheme will also keep running.

# 7. AVOIDING AN HMRC ENQUIRY

Unfortunately, the likelihood of an **R&D enquiry** has increased in recent years. To help tackle fraud and abuse, HMRC is now running **compliance checks** on **over 20% of all R&D Tax Credits claims**. We're proud of our exceptionally low enquiry rate, which stands at less than 5% – well below the last reported industry average of 20%.

You might face a compliance check for several reasons related to your R&D claim, but it's important to remember that most checks are triggered by errors rather than deliberate fraud.

The best way to ensure that your claim is compliant is to keep **detailed records of your work**. This might include project plans, technical challenges encountered, work records, and the costs incurred by your company.

Below, we list the most common reasons for **HMRC enquiries**.

> ***The Leyton UK team provided clear guidance on HMRC's requirements and helped us prepare complex documentation with ease. Their approach made what could have been a difficult and stressful process remarkably seamless.***
>
> *Save Water Save Money*

| Reason for HMRC enquiry | Description |
|---|---|
| **Errors in the claim** | Mistakes in the claim, such as overclaiming relief or misinterpreting what qualifies for relief, can trigger a compliance check. If this happens, HMRC will likely get in touch to ask you to fix any errors. |
| **Association with suspicious agents** | If your company is associated with an agent that has a history of promoting or submitting non-compliant claims, this might also trigger a compliance check. |
| **High risk of non-compliance** | The R&D Anti-Abuse Unit focuses its energy on areas with a high risk of non-compliance. E.g., your company might work in a sector where there are limited opportunities for legitimate R&D claims. |
| **Suspicion of fraud** | If HMRC suspects that your company has deliberately tried to abuse the relief system, they will investigate. This can be triggered by inconsistencies in your claim, unusual patterns in your company's R&D activities, or tips from whistleblowers. |
| **Mandatory random enquiry programme (MREP)** | HMRC also conducts random checks as part of its mandatory random enquiry programme (MREP), which measures the overall level of non-compliance. |

**We're proud of our exceptionally low enquiry rate, which stands at less than 5% – well below the last reported industry average of 20%.**

# How Leyton can help

At Leyton UK, our goal is to help innovative companies, like yours, thrive. We want to make sure that you're not missing out on financial relief to which you're fully entitled. The benefit can make a huge difference, helping to boost cash flow and fund further expansion, employee training or even more investment in R&D.

By following the advice within this guide, you'll be able to stay compliant and maximise your relief. We speak from experience. **As one of the UK's largest innovation funding consultancies, we've supported more than 17,000 businesses in the UK**.

But we know that every business is unique, especially when it comes to innovation. If you have a question about anything related to your own R&D projects, don't hesitate to reach out. We'd love to hear more about what you're working on.

▸ **DROP US A MESSAGE**
*OR SCHEDULE A CALL*

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