Folio Partners

R&D Tax Relief: unlocking tangible value

Plenty of UK businesses undertaking qualifying R&D activities never claim R&D Tax Relief, usually because they're unsure whether their projects qualify or what the process actually involves.

At the same time, not every claim is an eligible claim, and it's worth knowing the difference before you commit to one. This guide sets out both sides in plain terms: how to tell if you have a genuine opportunity, and what to watch out for along the way.

What is R&D Tax Relief?

R&D Tax Relief is a UK government incentive designed to reward businesses that invest in innovation. In HMRC's own words, a qualifying project must seek "an advance in a field of science or technology," and must involve overcoming a genuine technical uncertainty that a competent professional in the field couldn't readily resolve. Routine development work and minor improvements don't qualify. Technically, HMRC doesn't define eligibility by sector, though it's worth noting that work in the arts, humanities, or social sciences (including economics) doesn't qualify, however innovative. At the same time, HMRC does use SIC codes to flag certain industries for closer scrutiny, so claims from those sectors may still face more questions even when the underlying work is genuinely eligible.

How it pays out depends on the shape of your business, but commonly it works like this:

- **Loss-making businesses** can receive a direct cash payment from HMRC.
- **Profitable businesses** see a reduction in the Corporation Tax due, or a refund if it's already been paid.

The relief is calculated as a percentage of qualifying R&D spend, currently up to 27p for every £1 spent for R&D-intensive, loss-making SMEs, or around 15p to 16p for most other claims under the merged scheme, depending on whether the business is profit-making or loss-making. The claim itself is made through the Corporation Tax submission.

A quick definition: an SME counts as R&D-intensive when its qualifying R&D spend makes up at least 30% of total expenditure. Reaching that threshold and being loss-making are both required to unlock the higher, 27p rate mentioned above. If your business has connected companies, their expenditure counts too: the 30% test is calculated across the whole connected group, not just one entity.

How to tell if your business qualifies

Three things need to be true, and all three matter.

Undertaking qualifying R&D activities. This is assessed with input from a competent professional, someone with real expertise in the relevant field, which may or may not be the business owner. The assessment covers their knowledge of the field generally, how genuinely challenging or uncertain the work was, and whether succeeding represents a real advance in the wider field, not just a solution that happened to work for one business. If the honest answer is "we did something a competent person in our field would have reasonably expected to work," it likely doesn't qualify, and no adviser should be telling you otherwise.

Incurring eligible expenditure. Broadly:

- **Staff costs** (salaries, employer's NI, pension contributions for those directly involved)
- **Externally provided workers (EPW) and subcontractor costs** (with a UK-based requirement for accounting periods beginning on or after 1 April 2024)
- **Software costs**
- **Data licence and cloud computing costs** (eligible for accounting periods beginning on or after 1 April 2023)
- **Consumables** used in the R&D process (materials, fuel, water)
- **Clinical trial volunteer payments**, where relevant

Industries that commonly involve qualifying work include technology, software, life sciences, defence, space, manufacturing, architecture, engineering, pharmaceuticals, construction and agriculture, but again, the test is the work itself, not the sector, aside from the exceptions previously mentioned.

Being a UK taxpayer/doing work in the UK. The company must be liable to UK Corporation Tax. For accounting periods beginning on or after 1 April 2024, most subcontractor and externally provided worker costs must relate to UK-based work to qualify, with narrow exceptions where the conditions needed for the R&D (geography, environment, or regulatory requirements) simply aren't available in the UK.

Two deadlines that can lose you the claim, even if you qualify. Every claim, first-time or not, also needs an additional information form submitted alongside your Corporation Tax return, or HMRC won't consider it on its merits. Beyond that, two hard deadlines apply:

- **First-time claimants, or anyone who hasn't claimed in the last 3 years:** a claim notification form must reach HMRC within 6 months of the end of the accounting period the R&D took place in. Miss it, and there's no route to claim for that period, however strong the underlying work is.

  There are two conditions that mean even if you've claimed within the last 3 years, you may still need to submit a claim notification form:

  - HMRC rejected your R&D tax relief claim by removing it from your Company Tax Return, or
  - You claimed R&D tax relief for an accounting period beginning before 1 April 2023 by amending your tax return, and the amendment was received on or after 1 April 2023.

- **All claims:** must be submitted within 2 years of the end of the relevant accounting period. After that, the window closes for good.

What to watch out for

R&D Tax Relief has attracted its share of poor advice. Some advisers market the scheme as though almost every business qualifies, or make the process sound effortless and guaranteed, "no risk, free money from HMRC." Neither is accurate, and it's worth knowing the difference before you commit to a claim.

A few practical markers of good advisers:

- **A credible adviser** will tell you upfront if your work is unlikely to qualify, not just when it clearly does.
- **“No win, no fee” isn't inherently a red flag**, but the absence of any real discussion of evidence, technical detail, or what happens if HMRC opens an enquiry, is.
- **A claim's strength** comes from documented technical detail, not from how confidently it's marketed.

- **They interview the competent professionals directly**, not just the finance team or business owner, to properly assess the technical uncertainty.
- **They're transparent about risk**, including telling you when a claim is borderline rather than pushing it through regardless.
- **They ask for contemporaneous evidence**, technical notes and records made at the time the work happened, not written up afterwards to fit the claim.

Claimed properly, R&D Tax Relief is a legitimate, valuable part of UK tax policy, and worth claiming by the businesses genuinely doing the work.

What can you actually do with the credit?

Once a claim is processed, there are three practical routes:

- **Take it as a direct cash payment.** This can be reinvested into R&D, used as working capital, or, where profits allow, extracted as dividends.
- **Reduce the Corporation Tax due.** This can also be set against other outstanding tax liabilities, such as PAYE.
- **Borrow against the credit.** A small number of specialist lenders will advance funds against a credit that's due but not yet paid, unlocking cash flow immediately rather than waiting on HMRC, though this remains a niche part of the market.

Why claims get challenged, and why that shouldn't put you off

HMRC has significantly increased scrutiny of R&D claims in recent years. An enquiry doesn't necessarily mean a claim is ineligible, but it does mean the claim needs to stand up to real questions. Common triggers include insufficient technical detail, overclaimed costs, inconsistencies within the claim, a disproportionately high claim value relative to the business, and sector-specific scrutiny.

Broadly, HMRC generally has 12 months from filing to open an enquiry, though if a claim didn't disclose enough for HMRC to have spotted an issue at the time, it can still come back to it years later. Either way, paying out a claim doesn't rule out an enquiry landing afterwards. If a claim is later found to be overstated, HMRC will look to recover the difference, and may also apply a penalty depending on whether it judges the error to reflect reasonable care, carelessness, or deliberate conduct. The outcome then depends heavily on how robust the original claim and its supporting evidence are. Most enquiries are still resolved through discussion, with the business retaining the full benefit or an adjusted amount rather than repaying everything.

It also isn't only HMRC that looks closely later. Any time a business raises investment, brings in a partner, or is eventually sold, its financial history gets properly scrutinised, often for the first time. A shaky claim sitting quietly in the accounts can resurface at exactly the moment it's most inconvenient.

None of this means claiming is risky in itself. It means the quality of the claim, and of whoever prepares it, is what actually protects you. Claims prepared thoroughly from the outset, with clear technical detail and contemporaneous evidence, are the ones that hold up when questions come, and in our experience, that's often exactly why an enquiry closes quickly and without incident.

How we approach it

At Folio, every R&D claim goes through the same disciplined process regardless of size: an initial no-obligation conversation to understand the business and the work, an eligibility assessment against HMRC's current criteria, evidence-gathering with your finance and technical teams, and a clearly documented technical and financial narrative. Before anything is submitted, it's reviewed by an independent compliance team, separate from the team that prepared it. That second set of experienced eyes is built into the process as standard, not something added after something's gone wrong.

Our compliance work is led by Tom Elsbury, who brings over a decade of experience in tax consultancy and R&D relief specifically. In 2025, he brought a landmark Freedom of Information case against HMRC, successfully securing a tribunal order requiring HMRC to disclose whether it had used AI in R&D tax credit assessments, the kind of scrutiny we think the process deserves in both directions.

We also offer a dedicated R&D enquiry resolution service. If HMRC does open an enquiry into a claim, whether we prepared it or not, we take on the response and represent the business throughout, rather than leaving them to face it alone.

Fees are agreed upfront on a contingency basis, depending on complexity, with no surprises later. Worth noting, most claims take 4 to 6 weeks to prepare and submit from the start of the engagement, and HMRC typically takes a further 8 to 12 weeks to process, though this varies.

Real businesses, real claims

Red Deer: R&D relief as permission to experiment

Red Deer is an architecture practice built around a simple idea, its founders repeat like a motto: "play with purpose." Sustainability and end-to-end design thinking sit at the centre of their work, which means genuinely pushing into unproven territory on real projects, not just moodboards.

As founder Lionel Real de Azúa put it, the practice had heard of R&D tax relief before, but assumed it meant more paperwork than a design-led architecture firm had time for. Working with Folio changed that.

> *"Having worked with Folio Partners, it created a sort of paradigm shift in how we're going to approach projects in the future. We are now not as dismissive of the creative process and attacking unknowns head-on... we are now actively pushing the boundaries of what is architecturally possible."*
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> - Lionel Real de Azúa, Founder, Red Deer Architecture

Architecture is a sector that commonly misses out on R&D relief entirely, often for exactly the reason Red Deer nearly did; it sounds like a scheme for laboratories, not studios. The reality is that genuine technical problem-solving, on materials, methods, or sustainable design approaches, nobody's proven yet, qualifies just as much as anything happening in a lab.

SciLogica: what a claim done properly can grow into

This one isn't a story about a dramatic R&D claim; it's a story about what happens afterwards. SciLogica is a life sciences business whose platform enables continuous, real-time monitoring of blood analytes, work spanning concept, prototyping, clinical trials and clean room manufacturing across the US and the UK.

SciLogica came to Folio for R&D Tax Relief support. Getting that claim right meant understanding their actual technical work in enough depth to build something accurate and defensible, not a generic submission. From there, the relationship grew on its own terms: monthly bookkeeping, VAT returns, statutory accounts, UK Corporation Tax, and more recently, consolidated accounts across both entities.

> *"The Folio Partners team provided an excellent level of support throughout our accounting and HMRC R&D tax credit claim process. They took the time to understand our business, explained everything clearly, and handled the claim professionally from start to finish. As a result, we secured valuable tax relief while saving significant time internally."*
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> - Sinéad Matthews, Director, SciLogica

It's a useful example precisely because it's ordinary: a properly handled claim became the start of a much broader financial partnership, not because anyone oversold anything, but because the first piece of work was done right.

Is it worth checking?

Most businesses that genuinely qualify for R&D Tax Relief don't claim it, not because they're ineligible, but because the legislation is complex, and it's often unclear whether the work actually qualifies. If your business has spent the last year solving a problem that wasn't straightforward, a new process, a better material, a new technology, a technical fix nobody else had worked out, it's worth a proper, honest look. And if you're already claiming, it's worth checking that the claim itself is as robust as it should be.

Get in touch, and we'll give you a straight answer either way.