ZAZEN TAX

R&D Tax Relief for Software

What actually qualifies, what the merged scheme and ERIS pay, the deadlines that kill claims, and how software claims survive the enquiry wave.

Eight chapters, one worked development budget, and every figure checkable on the free tools.

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The worked spend is Arbor Metrics' £180,000 development budget: four people with honest apportionments plus cloud and data costs. It nets £27,000 for a profit-maker, £29,160 for a loss-maker, and up to £48,546 if the company qualifies as R&D intensive. The same figures run in the R&D Tax Relief Calculator.

1 What qualifies, actually

R&D for tax purposes is resolving scientific or technological uncertainty in pursuit of an advance. Every word of that sentence is load-bearing.

The uncertainty must be one a competent professional in the field could not readily resolve from public knowledge: not whether your team can build it, but whether it is knowably buildable at all. The advance is for the field, not your product line. And the judgement belongs to a named competent professional, your CTO or lead engineer, not an agent's template.

Arbor Metrics' qualifying project is the honest kind: whether sub-second aggregation over a hundred million rows was achievable on commodity hardware, resolved through a partitioning approach not found in public art. The uncertainty was written down while it was still uncertain, which is what makes it credible.

2 What does not, however clever

Most software work is skilled, difficult and not R&D. HMRC's enquiry campaign is largely a war on claims that pretend otherwise.

- Using established frameworks in established ways, however well
- User interfaces, styling and user experience work
- Integrations that follow documented APIs
- Configuration, migration and routine performance tuning
- Fixing bugs whose causes are discoverable by ordinary debugging

The test is not difficulty but deducibility: if a competent professional could sit down and see the route, the work is development. A claim stuffed with routine work does not just lose the routine part; it poisons the credibility of the genuine part sitting next to it.

3 The merged scheme arithmetic

For accounting periods beginning on or after 1 April 2024 there is one scheme for almost everyone: a 20 per cent expenditure credit, above the line, and taxable.

Taxable is the word that halves headlines. On £180,000 of qualifying spend the credit is £36,000; a profit-maker pays corporation tax on it at 25 per cent and nets £27,000, an effective 15 per cent. A loss-maker's credit is notionally taxed at 19 per cent and nets £29,160, an effective 16.2 per cent.

The company	On £180,000	Effective rate
Profit-maker	£27,000	15 per cent
Loss-maker	£29,160	16.2 per cent
R&D intensive, via ERIS	£48,546	up to 27 per cent

The credit arrives as cash for loss-makers after the notional tax and a PAYE cap of £20,000 plus 300 per cent of the payroll bill, which bites companies built on contractors. The R&D Tax Relief Calculator runs all three lines on your spend.

4 ERIS, for the loss-making lab

Enhanced R&D intensive support is the surviving generosity: for loss-making companies whose R&D is at least 30 per cent of total spending, the old SME-style relief lives on.

ERIS grants an extra 86 per cent deduction on qualifying spend and pays a credit at 14.5 per cent of the surrenderable loss, worth up to 26.97p per pound. On Arbor Metrics' £180,000 that is £48,546, nearly twenty thousand pounds more than the merged scheme, which is why the intensity test is worth checking every single period.

The 30 per cent test compares qualifying R&D spend to total expenditure including connected companies, and a one-year grace period protects companies that dip below after qualifying. Growing sales and marketing spend is the usual way a company falls out: the calculator's intensity line is the early warning.

5 The two deadlines

Two dates decide whether any of the arithmetic matters. Both fall earlier than companies expect, and one of them is fatal.

First: a company claiming for the first time, or for the first time in three years, must file a claim notification within six months of the end of the period of account. Miss it and there is no claim for that period, whatever the records show. Diarise it at year end, the moment the period closes.

Second: every claim, first or fiftieth, needs the Additional Information Form filed before or with the return: projects, uncertainties, advances, costs by category, agent details. A return that claims relief without the AIF is treated as if the claim were never made. Claims themselves can be made or amended up to two years after the period end, but only inside those two gates.

6 Costs: what counts and what is capped

The categories are staff, externally provided workers, subcontracted work, software, cloud and data. Each has a rule, and the rules are where claims are won and lost.

Staff costs are apportioned by honest share of time on the qualifying work: gross pay, employer NIC and pension, but not benefits. Externally provided workers are restricted to 65 per cent of the payment. Cloud compute and data licences qualify to the extent they serve the R&D, a software-friendly change worth claiming properly.

Two restrictions matter for SaaS. Under the merged scheme the company that decided to do the R&D claims subcontracted work, so read the contract before both sides claim the same project. And from April 2024 overseas contractors and agency workers are generally excluded unless the work has to happen abroad for non-cost reasons: a distributed team is a claim-shrinking fact to model, not ignore.

7 The enquiry

Software claims sit in the middle of HMRC's enquiry campaign, and the pattern of what fails is consistent enough to plan against.

What fails: boilerplate narratives an engineer would not recognise, hundred per cent apportionments for people who visibly also do support and sales, advances described at the level of the company's product rather than the field, and agents who drafted the claim on commission and vanish for the enquiry.

What survives: a named competent professional who can talk about the uncertainty fluently, contemporaneous notes, apportionments recorded monthly, and costs that reconcile to the ledger in an afternoon. Enquiries are lost by reconstruction; they are survived by filing cabinets.

> **IF THE PITCH IS THAT EVERYTHING QUALIFIES**
>
> then the pitch is the problem. Commission-only R&D shops wrote most of the claims now being clawed back with penalties. An adviser worth paying will tell you what does not qualify first.

8 The claim file

Everything above compresses into one discipline: keep the file as the work happens, in a shape an inspector can read.

The R&D Claim Evidence Workbook is that shape: each project's uncertainty and advance in words, written during the work; each person's apportionment, noted monthly; costs by category with the 65 per cent and overseas restrictions applied; the total feeding the same £27,000 or £29,160 the calculator shows. The R&D Claim Checklist runs the gateway, the deadlines and the enquiry-readiness questions in order.

A genuine claim kept this way costs a few hours a quarter and funds a meaningful slice of the development budget, year after year. That is the whole case: the relief is real, the industry around it is mixed, and the file is what separates the two.

Where to go next

If you have never claimed and the period end was less than six months ago, the notification window is still open: that is the first move. Then the evidence workbook, this period, while the uncertainty is still fresh.

Every calculator and workbook mentioned in this book is free on zazentax.com, with no email form. They use the same figures, the same conventions and the same worked company as the chapters here.

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Accountants for software companies. If you would rather someone ran the numbers with you, that is what we are for.

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