What Actually Decides if an R&D Cost Qualifies?

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This article is for general guidance only and is not tax advice. R&D tax credit and grant rules change frequently and interpretation varies by case. Always confirm current guidance with your tax adviser before relying on it for a claim.

Ask a finance director what qualifies as R&D expenditure and most will come back with a short list: salaries, materials, maybe some subcontractor costs. Ask a tax adviser the same question and the list gets longer, more conditional, and more complex. It's in the gap between those two answers where much of the management work in R&D finance takes place.

The core test, and why it's narrower than it sounds

Irish Revenue's Tax and Duty Manual Part 29-02-03 states that qualifying expenditure must be incurred "wholly and exclusively in the carrying on" of R&D activity by the claimant company itself, drawing a specific distinction between this phrase and the broader "for the purposes of" or "in connection with" wording used elsewhere in Irish tax law.

The UK's HMRC applies a structurally similar test through its CIRD manual. Only the staffing costs of directors or employees who are "directly and actively engaged" in relevant R&D may qualify, with a proportionate reduction where an individual spends only part of their time on qualifying activity.

Canada's CRA guidance (the T4088 Guide to Form T661) distinguishes staff "directly engaged" in SR&ED, meaning hands-on work, from support work that only qualifies where it is proportionate with and directly supporting that technical work.

The wording differs across the three jurisdictions, but the underlying discipline is similar. Qualifying expenditure is more narrowly defined than simply the total cost of an R&D project. It must be spent on work undertaken to resolve the scientific or technological uncertainty.

What's clearly out

Irish Revenue's guidance identifies several categories that do not qualify because they are not incurred wholly and exclusively in carrying out the R&D activity itself. These include indirect overheads, recruitment fees, insurance, travel, equipment repairs and maintenance, shipping, business entertainment, telephone costs, bank charges, and interest.

In the UK, HMRC specifies that support staff costs such as administrative or clerical staff do not qualify except where they relate to specifically defined qualifying indirect activities. Once again, this shows how a cost may support the project or wider R&D function without forming part of the qualifying R&D activity.

Where the analysis becomes more difficult

According to Revenue's guidance, renting a specialised laboratory or clean room can qualify where the company could not have carried out the R&D without that specialised space, whereas renting an ordinary office used by the R&D team does not qualify, because an office is merely the setting for R&D rather than something essential to it.

Cloud computing costs are addressed in Ireland and the UK guidance. Revenue states that these costs may qualify only to the extent that they are incurred wholly and exclusively in carrying out qualifying R&D activities. HMRC introduced data licence and cloud computing costs as a qualifying category for accounting periods beginning on or after 1 April 2023. The relief is restricted to direct R&D costs and does not extend to the broader category of qualifying indirect activities. Neither regime provides a fixed formula for dividing a shared subscription between R&D and non-R&D use. In both jurisdictions, it's case-by-case.

Materials follow a related but distinct set of rules. In Ireland, where R&D materials are later sold as a marketable product, Revenue requires the cost attributed to the saleable portion to be deducted from the claim. The manual illustrates this with an example involving 1,000 processed items, of which 970 were saleable. Only the cost associated with the 30 retained items could be claimed.

HMRC's equivalent guidance on consumable items requires a similar apportionment wherever a consumable is only partly used for R&D. For a single electricity supply serving both R&D and non-R&D space, for example, only the qualifying portion may be included.

The management lesson

None of these edge cases are rare exceptions you'll encounter once and move past. Cloud subscriptions, shared equipment, resold materials, and employees who divide their time across several projects are common features of R&D activity.

That has a direct consequence for how R&D finance should be run. If most of your qualifying expenditure sits in apportioned, judgment-based categories, then the moment that judgment gets made matters enormously. Judgement when the cost is incurred can be supported by current evidence, technical context, and a clear rationale. Judgement months later may depend on incomplete records and imperfect recollection.

The practical question is therefore broader than whether the business tracked its R&D expenditure. It's whether the decisions behind that expenditure were captured close enough to the underlying activity to remain credible when reviewed later. That is primarily a process issue, and resolving it is one of the most important steps towards producing a defensible R&D expenditure record.