# Is Your Staff Time Record Strong Enough to Survive an R&D Audit?

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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.*

For most R&D-intensive companies, staff costs are the single largest category in any tax credit claim, and the one most likely to draw scrutiny.

## Ireland's 95% Rule: A Simplification with Conditions

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.

In addition, Revenue's Tax and Duty Manual Part 29-02-03 specifies that for accounting periods ending 31 December 2026 or later, 100% of an employee's emoluments may generally be treated as qualifying expenditure if at least 95% of their employment duties relate to qualifying R&D activities.

Where an employee falls below the 95% threshold, the general apportionment rule applies: The proportion of time spent on qualifying R&D determines the proportion of the employee's emoluments that may qualify. This includes pension contributions, bonus payments and health insurance.

This ≥95% rule is a helpful administrative simplification. However, businesses must still be able to determine, with reasonable confidence, whether each employee falls above or below the threshold.

## The UK Test: What You Did Matters More Than Your Title

HMRC's CIRD manual states that only the staffing costs of directors or employees "directly and actively engaged" in relevant R&D can be qualifying expenditure, and where a director or employee is only partly engaged, only that proportion of their staffing cost qualifies. A defined, exhaustive list of qualifying indirect activities (certain administrative and clerical support, maintaining R&D equipment, and other categories set out in the underlying DSIT Guidelines) can also qualify, but only to the extent that activity forms part of a specific R&D project rather than general business support.

HMRC's staffing cost guidance also defines the costs that may be included: emoluments, employer's secondary Class 1 National Insurance contributions, and employer pension contributions, extending to compulsory social security contributions across the EEA and Switzerland where relevant.

## Canada Draws the Line Task by Task

The CRA's T4088 Guide to Form T661 states that eligibility is determined by the work performed. Time spent by employees, supervisors and managers on specified categories of hands-on work may count as time directly engaged in SR&ED.

A separate treatment applies under the traditional method to employees who directly undertake, supervise or support SR&ED but are not directly engaged in the work. The CRA’s SR&ED Overhead and Other Expenditures Policy provides that the relevant portion of their salary or wages is reported as an overhead cost on Form T661, rather than as direct SR&ED salary.

Canada also caps how much of a "specified employee's" (broadly, an employee who owns a meaningful interest in the company) salary can be claimed. CRA's Salary or Wages Policy limits this to a multiple of the Year's Maximum Pensionable Earnings.

## The Real Question Behind All Three Rules

Despite their different structures and rules, all three regimes ultimately raise the same practical question: can the business show what a particular person was doing, why the work qualified and how that conclusion was reached close to the time the work took place?

Ireland’s 95% rule benefits businesses that can identify employees who are substantially dedicated to qualifying R&D. The UK focuses on an individual’s actual duties. Canada assesses eligibility at project and task level. These requirements cannot be addressed effectively through a year-end time-allocation exercise alone. A business needs an ongoing and credible record of what each person was doing and why the activity qualified.

Time allocation should therefore reflect how R&D work is managed throughout the year. It provides a live record of where R&D resources are being invested and supports the basis on which staffing costs are included in a claim. When responsibilities, projects and qualifying activities are recorded as the work progresses, the resulting evidence is more reliable and far easier to support than an allocation reconstructed after the year has ended.