Is Your R&D Subcontracting Structure Stealthily Capping Your Claim?

18/08/2026 2:57 pm IST

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.

Who you subcontract R&D work to and how your company sits within a wider corporate group carry financial consequences that most businesses never model until a claim is already capped by rules they didn't know applied. These limits differ by regime.

Ireland: a percentage-or-floor cap with a matching-spend condition

Revenue's Tax and Duty Manual Part 29-02-03 restricts subcontracted R&D expenditure paid to a university/higher education institute or unconnected third party to the greater of 15% of the company's own qualifying R&D expenditure or €100,000. The university and non-university categories are capped separately. The company also must also have incurred at least the same level of expenditure while carrying on qualifying R&D activity itself. Revenue’s example shows a company spending €2.5 million internally and claiming €120,000 paid to a university and €300,000 paid to an unconnected subcontractor, both amounts sitting within the 15% ceiling on that level of internal spend.

For group structures, Revenue's guidance sets the threshold at a 51% direct or indirect ownership interest. Qualifying group expenditure is the aggregate spend of all group members within the charge to Irish tax. It is allocated between members by election or, without an election, in proportion to each member's share of the group's total qualifying spend.

UK: a fixed percentage rate, and a territorial restriction the caps didn't used to have

The UK's approach is structured differently. HMRC's current merged-scheme guidance restricts the claimable amount to a fixed 65% of payments made to unconnected contractors, with different treatment for a connected contractor. HMRC's CIRD manual also defines subcontracting precisely. Paying another company to carry out R&D on your behalf counts as subcontracting, while paying for workers, materials or a consultant's time and expertise does not.

The UK also applies a territorial restriction. For accounting periods beginning on or after 1 April 2024, HMRC's reformed-reliefs guidance confirms that contracted-out R&D and externally provided worker costs must relate to activity carried out in the UK. A narrow exception applies where overseas work is necessary for geographical, environmental, regulatory or social reasons that cannot be replicated in the UK, provided cost did not drive the overseas choice.

The UK has no direct equivalent to Ireland's university-versus-third-party split or its "matching internal spend" condition.

Canada: no explicit subcontracting cap, but a hard expenditure-limit cap

shared across associated corporations

Canada's SR&ED programme does not cap subcontracted contract-payment expenditure in the same way as Ireland and the UK. Its more consequential constraint is territorial and structural. CRA's guidance to Form T661 confirms that the form applies only to SR&ED carried out in Canada. SR&ED performed outside Canada is generally claimed as an ordinary business expense instead of through the SR&ED programme.

Canadian-controlled private corporations, or "CCPCs", are broadly private companies that are majority Canadian-owned and controlled. They can earn the enhanced 35% refundable credit rate on qualifying expenditure up to an annual limit, recently increased to $6 million for tax years beginning after 15 December 2024. Where two or more CCPCs are associated, broadly under common control, CRA's guidance states that they must share a single combined limit. Unlike Ireland's 51%-ownership test, Canada's "associated corporation" concept follows the Income Tax Act's broader definition of association. It can extend to relationships between individuals and corporations as well as company-to-company shareholdings.

The management lesson

None of the underlying business decisions here are unusual: subcontracting a piece of specialist work, restructuring under a holding company, or expanding into a second jurisdiction are all completely ordinary. What differs sharply is which lever each regime pulls. Ireland caps subcontracting as a percentage of your own spend and cares about ownership thresholds. The UK caps subcontracting as a flat rate of the payment and increasingly cares about where the work physically happens. Canada barely caps subcontracting at all, but caps your entire enhanced-rate benefit at a shared ceiling the moment your corporate structure is judged "associated," however that group is organised.

The company that runs these numbers before signing a subcontract or restructuring a group turns what would otherwise be a compliance surprise into an ordinary planning input, no different from modelling any other tax consequence of a business decision in advance.