

New merged R&D Scheme: What's changed?

There's been no shortage of headlines about the UK's new [merged R&D Scheme](#). However, for many businesses, the real impact is only just beginning to be felt. R&D tax claims follow the end of the accounting period, so it's only now, as companies start compiling claims for periods beginning on or after 1 April 2024, that the practical implications of the new rules are becoming clear.

Now is the time to revisit what's changed, understand how it affects your business, and take action to ensure your subsequent claim is both compliant and optimised.

The new Merged R&D scheme

This new scheme replaces the previous SME and RDEC regimes with a single, unified framework. However, there is of course a twist: loss-making, R&D-intensive SMEs (where qualifying R&D expenditure is 30% or more of total expenditure) can still access a more generous form of relief under the Enhanced R&D Intensive Support (ERIS) regime, which offers relief worth up to 27% of qualifying costs.

For everyone else, the new scheme functions like the old RDEC - a taxable, above-the-line credit at 20% of qualifying expenditure. That means:

- SMEs accustomed to the old-style SME relief will now need to adapt to a new mechanism and may see a lower net benefit.
- Larger companies may observe more consistent outcomes and should now be able to claim a greater proportion of subcontractor expenditure.
- Eligibility shift – companies that previously did not qualify may now be eligible if they have initiated the R&D activity.

Contracted-out R&D: who gets to claim under the new merged R&D Scheme?

One of the most significant and potentially confusing changes under the Merged Scheme is the redefinition of “contracted out” R&D. This impacts who is eligible to claim relief when a third party conducts R&D.

Under the new rules, the right to claim rests with the party that:

- Decides to initiate the R&D, and
- Bears the risk of the R&D being carried out, including the financial and technical risks.

What does this mean in practice?

- A company contracts out R&D when it enters into a contract (written, verbal, or implied) for activities to be performed on its behalf, and it is reasonable to infer from the contract and surrounding circumstances that R&D was intended or contemplated as part of that contract. Contract wording is more important than ever for both upstream and downstream supplies. Vague or generic service agreements could cause unnecessary difficulties.
- Regarding the work carried out under the contract, the company performing the R&D can only claim if it is contracted to deliver the R&D and retains the decision-

making power and risk, not merely acting as a delivery agent. If you engage third parties to carry out R&D, you may no longer be eligible to claim unless R&D is intended and contemplated within the contractual terms, and you retain control and risk.

- R&D carried out outside of the contractual terms may still qualify as ‘in-house R&D’.
- The term “contractor” now refers to the party directly engaged to carry out R&D, while “subcontractor” is used for any party further along the chain.
- HMRC will examine the contractual terms and surrounding circumstances to determine who is eligible to claim, not just who physically performed the work.
- Where there are contractual chains, it will be necessary to identify the company that contracted out the R&D. Typically, this is likely to be the highest UK company within the chain.
- There are transitional provisions that can mean the old rules apply where one party to a contract is within the merged scheme and the other party is still under the old rules.
- If you’re a service provider, you may now be able to claim - but only if your contract indicates that you initiated the R&D and bear the associated risks.

Are overseas R&D costs now under the microscope under the new merged R&D Scheme?

Under the new rules, relief is generally only available for expenditure on contracted-out R&D and Externally Provided Workers, where:

- The R&D activity is performed in the UK, or
- It would be “wholly unreasonable” to carry it out in the UK (e.g. due to geography, environment, or regulatory constraints).

This could materially reduce the value of claims for companies that rely on global R&D teams or offshore contractors. We recommend that businesses:

- Review the supply chain and delivery model.
- Review the offshore exemption to confirm the extent to which this may be relied upon, taking account of HMRC’s evolving interpretation of the rules. If your company is incorporated in Northern Ireland, alternative rules may apply.
- Assess whether UK-based alternatives are viable.
- Document justifications for any overseas costs you intend to include.

5 ways to prepare for the new merged r&d scheme

With the new rules now in force, here are our five steps to stay ahead:

1. Review your R&D delivery model, particularly if you rely on overseas teams or subcontractors.

2. Review your contracts to ensure they accurately reflect who controls and bears the risk for R&D.
3. Plan your claims early - the new rules are complex, and notification deadlines may apply not only to new claimants but also to those who have filed returns in the last few years. Groups will need to consider notification obligations on a company-by-company basis.
4. Assess your eligibility under ERIS - if you're an SME, you may still qualify for enhanced support.
5. Speak to your advisor - the earlier you act, the more options you'll have.

How can AAB help?

Our Innovations Tax team can provide expert support to ensure your business is compliant.

While the merged scheme is a bold step toward simplification, it does, in practice, introduce new layers of complexity. For some businesses, it grants lower relief but tighter compliance. For others, it could open the door for new claim opportunities.

At AAB, we have a wealth of experience in supporting clients to prepare robust and successful R&D Tax claims. If you have any questions about how the new merged R&D scheme rules might affect you, please do not hesitate to get in contact with [Chris Webster](#), a member of our [Innovations Tax team](#) or your usual [AAB contact](#).