

**In Collaboration With Fortrea**

**UK R&D Relief and Clinical Development Activities**  
Opportunities for Life Sciences Sponsors Partnering  
with UK Contract Research Organisations

April 2026



As a contract research organisation (CRO) deeply embedded in early clinical development, we work alongside pharmaceutical and biotech sponsors at a stage where scientific promise must be matched with financial and strategic stewardship.

Against this backdrop, the UK has emerged as a particularly compelling environment for conducting clinical trials; combining scientific excellence, regulatory credibility and a tax framework that can materially enhance the efficiency of research and development investment.

From a clinical and operational standpoint, the UK offers a mature and highly integrated clinical research ecosystem. World class academic centres, experienced investigators, streamlined ethics and regulatory processes, as well as a diverse patient population make the UK especially attractive for complex early phase studies. However, beyond these well recognised advantages lies an additional, and sometimes underappreciated benefit: the availability of targeted tax incentives that may apply to eligible organisations undertaking qualifying clinical research activities within the UK.

For sponsors navigating the capital intensive early stages of development, the ability to offset or recover a proportion of qualifying clinical expenditure can meaningfully influence development strategy. When appropriately structured and supported, eligible UK clinical trial spend may attract favourable tax treatment, improving cash flow, extending financial runway and enabling reinvestment into additional clinical or translational activities. These considerations are especially relevant in the early phase of development, where clinical risk is highest and access to nondilutive financial benefits can be strategically valuable.

This white paper, drafted by specialist tax experts, is intended to complement the scientific and operational guidance we provide as a CRO. Its purpose is to outline, at a high level, how the UK tax landscape may support clinical development programmes, the types of organisations and activities that may be eligible, as well as the importance of early planning to align clinical trial design, operational delivery and tax strategy. While this paper does not constitute tax advice, it is designed to help sponsors ask the right questions and engage appropriately with professional advisers.

As Fortrea's Chief Medical Officer, my objective is to ensure that our clients are positioned to make decisions in a scientifically rigorous yet agile environment, emphasising patient safety, scientific integrity, operational excellence and financial stewardship. Conducting early clinical trials in the UK can offer advantages across all these dimensions. Understanding how clinical execution and tax considerations intersect is an increasingly important part of modern drug development, and one that merits careful consideration at the outset of any programme.

**Oren Cohen**

Chief Medical Officer, Fortrea



Squire Patton Boggs is a full-service global law firm. We provide insight at the point where law, business and government meet, supporting ambitions and achieving successful outcomes. Our multidisciplinary team of more than 1,500 lawyers in over 40 offices across four continents provides unrivalled access to expertise and invaluable connections on the ground.

Our life sciences/healthcare group understands the unique needs of life sciences companies, and the challenges that arise in developing and bringing to market medical devices, pharmaceuticals and the products of biotechnology. We count among our clients more than 300 companies engaged in the life sciences/healthcare industry, including many of the top 20 life sciences companies worldwide. These include emerging and established manufacturers, distributors and healthcare and research organisations.

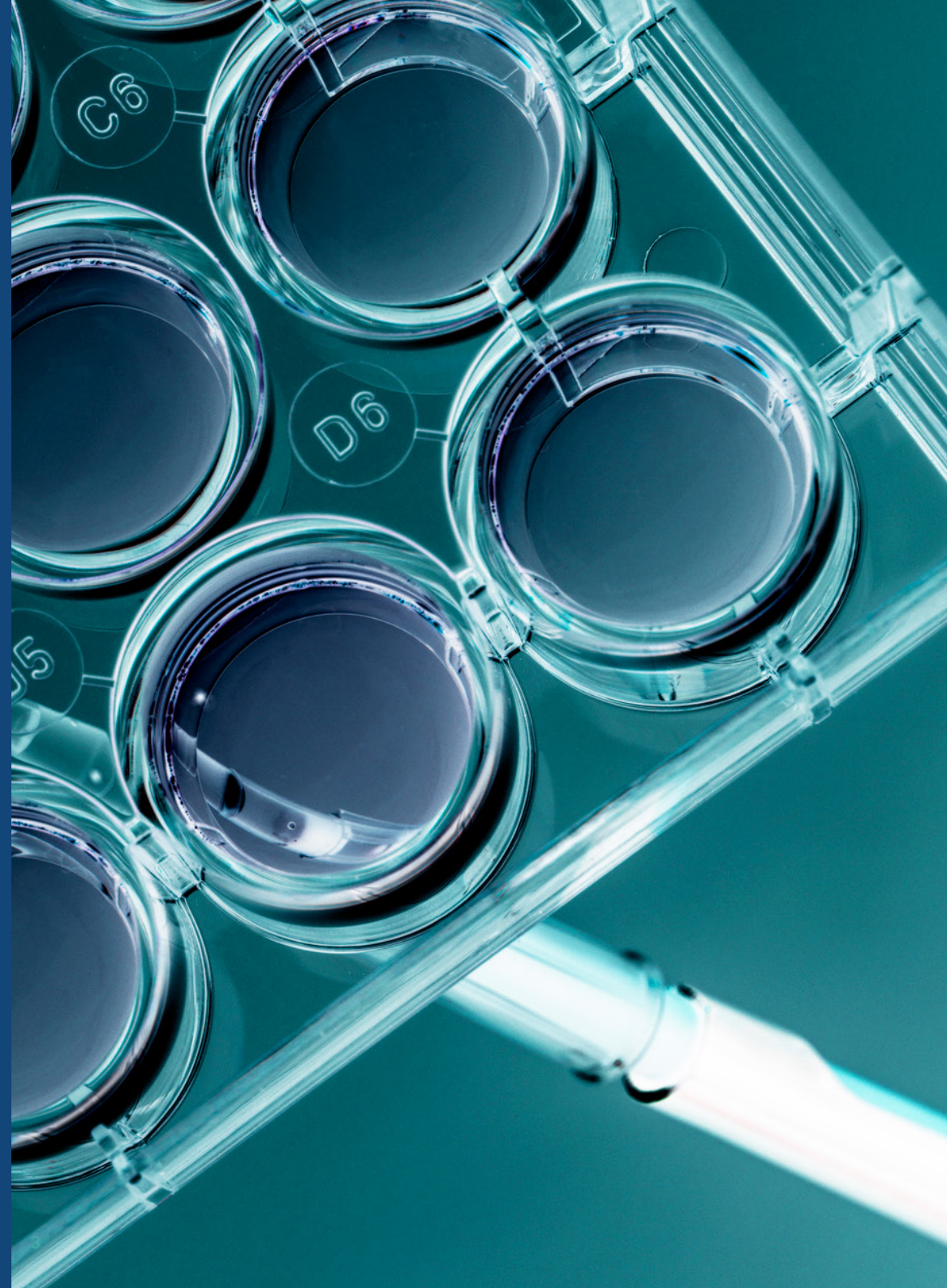
Squire Patton Boggs recognises the importance of the life sciences sector around the world, and no less so here in the UK, including the rapidly growing economic activity across the North of England.

Having published its life sciences industrial strategy in July 2025, the UK government recognises the economic growth prize and has set a national ambition that by 2035 the UK will be third place globally after China and the US.

Fortrea, who have made a very significant UK investment in Leeds by creating a world class clinical trials facility in the city, have agreed to support our efforts to demonstrate how the UK tax landscape may support contract research organisations in respect of research and development relief, and their growth agendas.

**Sir Roger Marsh OBE DL**

Senior Business and Strategy Adviser, Squire Patton Boggs UK



**As demand for better healthcare continues to rise across the globe, the UK is a leading figure in the international drug development and innovation landscape underpinned by support from a number of major stakeholders. Such support accelerates innovation while improving participant safety and study start-up times.**

These stakeholders are:

- Internationally recognised and respected regulators, such as the Medicines and Healthcare Products Regulatory Agency (MHRA) and Health Research Authority (HRA)
- Public health bodies, such as the National Health Service (NHS)
- The UK government through its recently reformed research and development (R&D) tax relief framework

The UK government published its life sciences sector plan policy paper in July 2025, committing to a target that the UK will have more investment in commercial R&D than any other European economy by 2030, and more than any other country globally (excluding the US and China) by 2035<sup>1</sup>.

This paper will focus on the opportunities that the UK R&D tax relief system presents for companies engaging CROs to undertake clinical research.

<sup>1</sup> Source: [Life Sciences Sector Plan - GOV.UK](#)

## Introduction

Originally introduced in 2000, the UK R&D regime has proven to be an invaluable source of funding for life sciences and biotechnology companies, helping them advance critical R&D initiatives. According to statistics released by the Office of National Statistics, pharmaceutical R&D accounted for 17% of all UK business R&D in 2023<sup>2</sup>, the highest of any product area.

The UK R&D regime underwent significant reform in 2024 with a view towards:

- Ensuring the UK remains a competitive location for cutting-edge research by incentivising private sector investment in innovation.
- Simplifying the system by merging the previous two R&D schemes into a single, unified framework for most companies, effective for accounting periods starting on or after 1 April 2024.
- Effectively targeting taxpayer money and reducing error and fraud.
- Redirecting R&D relief to UK-based activities by generally restricting relief for overseas R&D expenditure to encourage a “buy British” approach and prevent a loss of skills to other countries.
- Rewarding the party that initiates and bears the financial risk of the R&D. New rules for contracted-out R&D ensure that the customer (the decision-maker) is generally the one eligible to claim the relief, aligning the incentive with the company driving the innovation project. This is a major shift for pharmaceutical companies engaging CROs, enabling them to claim relief on expenditure that previously would not have been available to them.

## Overview of the UK R&D Tax Relief Regime

UK R&D relief is the UK government’s primary mechanism for supporting innovation in the UK; providing significant tax benefits to companies subject to UK corporation tax who are undertaking eligible R&D activities in the UK. From 1 April 2024, a new “merged scheme” was introduced that provides two types of corporation tax relief: an R&D Expenditure Credit (RDEC) and, for loss-making R&D intensive small and medium-sized enterprises (SMEs) (i.e. independent companies with fewer than 500 staff and either or both an annual turnover not exceeding €100 million and a balance sheet total not exceeding €86 million in the relevant accounting period), enhanced R&D intensive support (ERIS).

There are several conditions and restrictions that affect the availability of these reliefs, which are summarised further in this paper.

<sup>2</sup> Source: [Life Sciences Sector Plan - GOV.UK](#)



## RDEC

The RDEC scheme is available to all companies subject to UK corporation tax (including UK permanent establishments of foreign companies, provided that the R&D is relevant to a trade within the charge to UK corporation tax). The relief is available as an “above-the-line credit” at a rate, in most cases, of 20%. Depending on the applicable rate of corporation tax, this results in a net benefit of 15% for companies who pay corporation tax at the current main rate of 25%, and a net benefit of 16.2% for loss-making companies or those paying the current small companies’ rate of corporation tax of 19%.

## ERIS

ERIS offers certain loss-making SMEs relief in the form of an additional corporation tax deduction of 86% of their qualifying R&D expenditure, and a payable tax credit at a rate of 14.5% of the enhanced deduction.

To be eligible for ERIS, the SME must be a going concern carrying on a loss-making trade in the relevant period, and meet an “intensity condition”. The intensity condition is measured by looking at what percentage of total expenditure is spent on qualifying R&D. A percentage of 30% or higher is classed as R&D intensive. If a company is “connected” to any other companies, the percentage is based on all connected companies’ expenditure.

Companies who qualify for ERIS can choose to claim RDEC, but may not claim relief under both schemes in respect of the same expenditure.

Note there are separate special rules that can apply to R&D intensive SMEs registered in Northern Ireland, which are not covered in this paper.

## Definition of R&D

The definition of R&D is the same under the RDEC and ERIS regimes, and has not changed since the 2024 changes were introduced. R&D broadly covers activities that are treated as such under generally accepted accounting practice (the relevant accounting standards being FRS102 s18, IAS38 and FRS105 s13 as modified by any regulations that the Treasury may introduce and guidelines issued by the secretary of state. For there to be R&D, a company must be undertaking a project with a view towards seeking “an advance in science or technology through the resolution of scientific or technological uncertainties”<sup>3</sup>.

To be “relevant” R&D for tax relief purposes, the R&D activities must be those carried out in relation to its trade, or from which it intends to derive its trade.

<sup>3</sup> Source: [HMRC Internal Manual: Corporate Intangibles Research and Development Manual](#)

## What Is R&D Qualifying Expenditure?

Qualifying expenditure can be (i) in-house, (ii) contracted-out or (iii) contracted-out to an “irrelievable” client. Contracted-out expenditure is discussed in more detail later in this paper.

In-house R&D is expenditure a company incurs itself, which may qualify for relief if it is attributable to the R&D activities undertaken by the company itself in the UK (and not attributable to a foreign permanent establishment, or to R&D contracted-out to the company).

Under ERIS, an SME may elect for relief for certain pre-trading qualifying expenditure provided it would have qualified, had the SME been trading. Such election must be made and notified to HM Revenue and Customs (HMRC) within two years of the end of the accounting period to which it relates. There is no equivalent relief available under the RDEC scheme for pre-trading expenditure.

## Categories of R&D Qualifying Expenditure

To qualify for relief, the expenditure must be incurred on specific types of costs, namely:

- **Staffing costs** – Staffing costs (broadly speaking, salaries, employer’s national insurance contributions and pension contributions) must be of directors or employees directly and actively engaged in relevant R&D, with appropriate prorating where only a proportion of such director’s or employee’s work relates to R&D activities. Under guidelines released by the UK government’s Department for Science, Innovation and Technology<sup>4</sup>, “qualifying indirect activities” may also be included to the extent that such activities are relevant to the R&D project in question. The could include things such as security, administration, finance, personnel and clerical services and maintenance.
- **Software, data licences and cloud computing** – Software, data licences and cloud computing costs employed directly in R&D will be considered qualifying provided these are revenue in nature.
- **Consumable items** – Consumable items, such as water, fuel and power, as well as equipment with a short useful life provided the expenditure is revenue in nature constitute qualifying expenditure, provided they are employed directly in R&D (or on indirect qualifying services).
- For equipment with a longer life, R&D relief under RDEC is unlikely to be available, but may instead qualify for R&D capital allowances, which are not the subject of this paper.

<sup>4</sup> Source: [Meaning of Research and Development for Tax Purposes: Guidelines](#)

- **Externally provided workers (EPW)** – This category of qualifying expenditure applies where a staff provider is contracted to supply external workers, although it does not cover the recruitment costs of staff provided by employment agencies, or where the contract is for more than the provision of workers and amounts to contracting out of a part of the R&D activity. It does not include payments to self-employed consultants, but may include payments of reimbursed expenses, where the expenses are incurred initially by an EPW, subsequently refunded by a staff provider or staff controller and then recharged to the company. To qualify, the workers must be directly and actively engaged in the R&D, i.e. the costs must relate to staff time engaged in activity that constitutes R&D for tax purposes, which includes “qualifying indirect activities”.
- **Clinical trial subjects** – Particularly pertinent to pharmaceutical companies, the cost of “relevant payments” to subjects of pre-launch clinical trials can be claimed under both RDEC and ERS schemes.

In each case where costs are partly employed directly in R&D, an appropriate apportionment of the expenditure should be made.

## Contracted-out R&D Expenditure

The changes to the availability of R&D relief for contracted-out expenditure represents one of the biggest shifts to the R&D regime impacting pharmaceutical companies and CROs, with the availability of relief largely moving from those undertaking the R&D to the party who makes the decision to undertake or initiate R&D (but see section 5.3 below in respect of contracted-out expenditure for “irrelievable” clients”).

R&D is contracted-out where a person (A) enters into a contract (which may be written, verbal or implied) for activities to be done for it, and the activities done to meet the contractual obligations include R&D and “having regard to the terms of the contract...and any surrounding circumstances, it is reasonable to assume that A intended R&D of that sort would be done when it entered into the contract”<sup>5</sup>.

R&D is contracted-out to either the party to the contract who undertakes the obligations to the person who contracts out the R&D (which could be a CRO), or any sub-contractor who undertakes contractual responsibility for the activities needed to meet those obligations.

A company may therefore claim for the costs of contracting out its own relevant R&D to another person, but will need to be able to demonstrate that it intended or contemplated that R&D of that sort would be done (i.e. the contractor did not initiate or undertake R&D solely to enable it to perform the activities required under the contract which, in such circumstances, may mean the contractor is able to claim R&D relief).

HMRC have released guidance on the surrounding factors it will consider when determining who the party is that made the decision to initiate or undertake R&D. These circumstances will not necessarily carry equal weight or be relevant in every case, and include (but are not necessarily limited to):

- Intellectual property (IP) ownership
- Financial risk in undertaking the work
- Autonomy in how the activity is executed
- Means by which the R&D is ultimately to be exploited
- The decision-making process (for example whether the motivation to undertake the R&D flows from the customer’s wider strategy or an immediate tactical challenge recognised by the contractor)
- The experience and seniority of decision-makers
- The nature of the parties (for example whether it is evident that the contractor specialises in providing R&D services and the contract is typical of those R&D activities)<sup>6</sup>.

## Relief Available for Contracted-out R&D Expenditure

To benefit from relief as contracted-out R&D, the expenditure must be (i) revenue in nature, (ii) attributable to the relevant R&D, (iii) related to one of the permitted cost categories (see above) and (iv) costs incurred when paying the qualifying component of a contractor payment.

## Amount of Relief

Where the parties are not connected, the relief is restricted to 65% of the contracted-out expenditure that relates to R&D (and if there is any expenditure that does not relate to R&D, an apportionment should be made on a just and reasonable basis).

Where parties are connected, relief is available for up to 100% of the contracted-out expenditure (i.e. the costs the contractor incurs in providing the R&D services). Note, it is possible for unconnected parties to jointly elect to be connected for these purposes, but as this would require the contractor to provide details of its margin, this is likely to be rare in practice.

## Contracted-out R&D Expenditure for Irrelievable Clients

“Irrelievable” clients are those that are either ineligible companies for R&D purposes (such as charities, higher education institutions, scientific research associations and health service bodies), or companies that did not incur their expenditure in the course of a trade subject to UK corporation tax. In such circumstances, the contractor can claim relief on R&D expenditure that would otherwise have been qualifying were it not contracted-out to the contractor.

<sup>5</sup> Source: [HMRC Internal Manual: Corporate Intangibles Research and Development Manual](#)

<sup>6</sup> Source: [HMRC Internal Manual: Corporate Intangibles Research and Development Manual](#)

## Restrictions on R&D Relief – the Pay as You Earn (PAYE) and National Insurance Contributions (NICs) Cap

The amount of any tax credit under both the RDEC and ERIS schemes is capped by reference to the company's liability for PAYE and NICs for the relevant accounting period. The cap is £20,000 plus 300% of the company's PAYE and NICs liabilities for that period i.e. if the PAYE and NICs bill is nil, the cap is £20,000. Note that the £20,000 is prorated for an accounting period shorter than 12 months.

If a company makes claims under both schemes, the cap is first applied to the ERIS claim with the RDEC claim being able to utilise any balance.

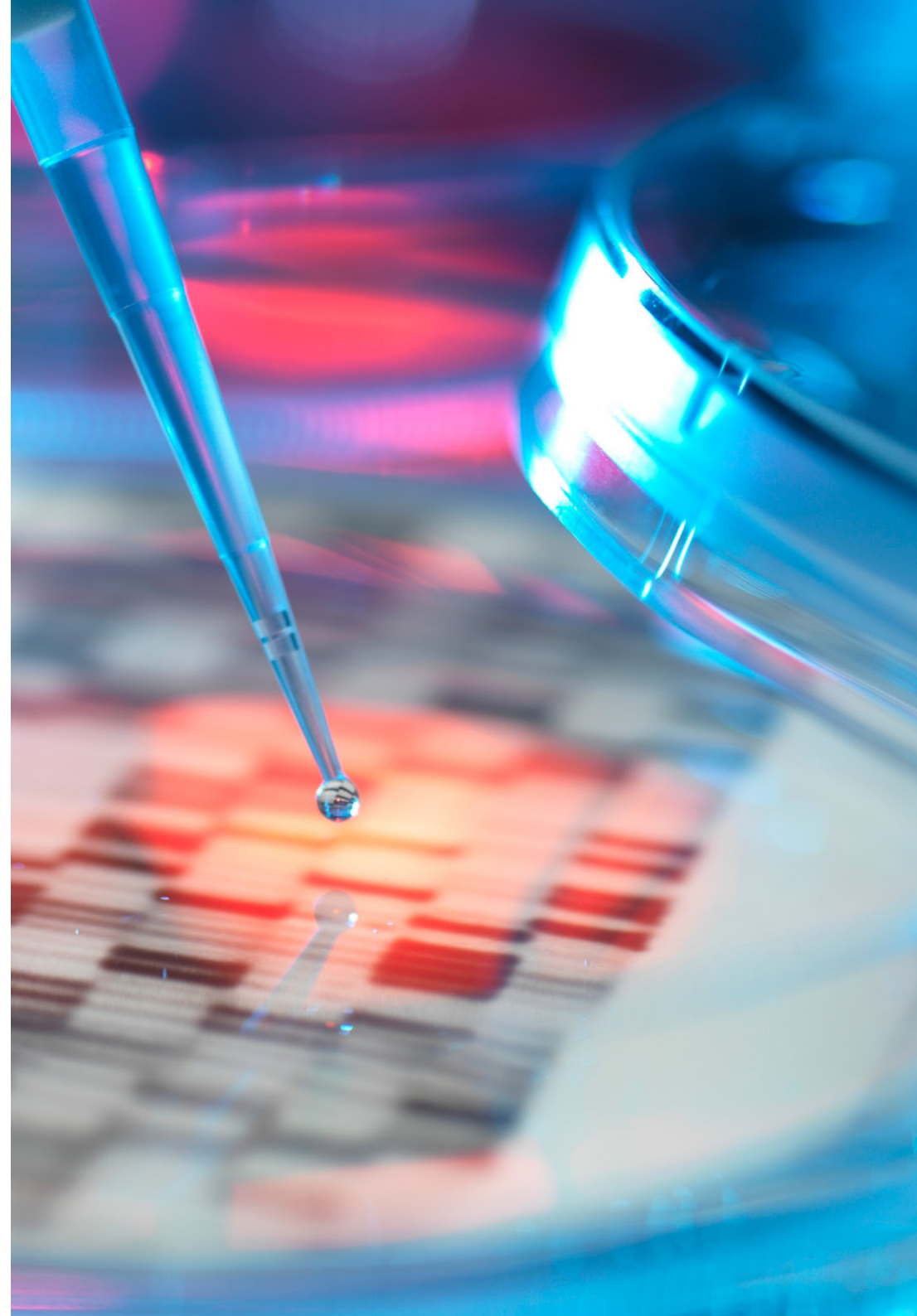
### Claims Process

R&D relief is claimed on a company's corporation tax return for the relevant accounting period.

However, the recent changes to R&D also brought in some additional administrative requirements, and claims will be invalid if either of these requirements are not complied with.

Companies will now need to submit additional information via an online additional information form (AIF) to HMRC to support their claims under both the RDEC and ERIS schemes. The information required on the AIF includes details of the company, the R&D claim and any agent or adviser engaged by the company in relation to the claim.

There is also a requirement for companies, in certain circumstances, to pre-notify HMRC of their intention to claim (e.g. if they are claiming R&D relief for the first time or if their last claim was more than three years ago).



## Examples

Example One	Example Two	Example Three
<p>A UK-based pharmaceutical company has qualifying R&amp;D expenditure of £1 million, taxable profits of £3 million (pre-R&amp;D credit) and a PAYE and NICs bill of £300,000 per annum. It is not an R&amp;D intensive business and pays UK corporation tax at the UK main rate of 25%.</p> <ul style="list-style-type: none"> <li>The gross RDEC available would be £200,000 (£1 million x 20%)</li> <li>The R&amp;D relief is not restricted by the PAYE cap as the gross RDEC is less than £920,000 (£300,000 x 3 + £20,000 = £920,000)</li> <li>The RDEC is added to taxable profits (£3 million + £200,000 = £3,200,000)</li> <li>Corporation tax is calculated at 25% of £3,200,000 = £800,000</li> <li>The net benefit of the RDEC is £150,000</li> <li>The RDEC is applied to the current year corporation tax liability, reducing the company's tax bill for that year</li> </ul>	<p>This example uses similar facts as above; however, the PAYE and NICs bill is only £50,000 and the R&amp;D qualifying expenditure is £2 million.</p> <ul style="list-style-type: none"> <li>The gross RDEC available would be £400,000 (£2 million x 20%).</li> <li>However, the PAYE cap would restrict the RDEC available to £170,000 (being £50,000 x 3 + £20,000). The disallowed excess can be carried forward to the next period.</li> <li>The RDEC is added to taxable profits (£3 million + £170,000 = £3,170,000).</li> <li>Corporation tax is calculated at 25% of £3,170,000 = £792,500.</li> <li>The net benefit of the RDEC is £127,500.</li> <li>The RDEC is applied to the current year corporation tax liability, reducing the company's tax bill for that year.</li> </ul>	<p>This example uses the same facts as Example One, except the taxable profits of the company are £200,000.</p> <ul style="list-style-type: none"> <li>The gross RDEC available would be £200,000 (£1 million x 20%)</li> <li>The R&amp;D relief is not restricted by the PAYE cap, as the gross RDEC is less than £920,000 (£300,000 x 3 + £20,000 = £920,000)</li> <li>The RDEC is added to taxable profits (£200,000 + £200,000 = £400,000)</li> <li>Corporation tax is calculated at 25% of £400,000 = £100,000</li> <li>The RDEC therefore increases tax by £50,000 because the credit is taxable</li> <li>£100,000 of the RDEC is used against the current year corporation tax bill meaning £100,000 of the RDEC remains.</li> <li>A notional charge is then applied to the remaining credit (at 25%) meaning £75,000 of the RDEC remains available.</li> <li>Assuming there are no prior year outstanding corporation tax or other tax liabilities (e.g. VAT, PAYE), and assuming there are no other restrictions on the company's entitlement to a payable credit (e.g. if insolvent or if anti-avoidance rules applied) then the £75,000 becomes payable to the company as a cash credit.</li> </ul>

# Opportunities for Pharmaceutical Companies

## Opportunities for Companies Based in the UK

The recent changes to the R&D regime present a real opportunity for UK-based pharmaceutical companies (or foreign companies that are within the charge to UK corporation tax) shifting the availability of relief for contracted-out expenditure from CROs to the pharmaceutical companies initiating the R&D.

To illustrate the difference between the old and new R&D regimes in this regard, a company engaging a CRO to undertake qualifying R&D for a payment of £1 million, can claim relief on £650,000. Under the RDEC scheme, this could generate an expenditure credit of up to £130,000 (which after tax at 25% and assuming the PAYE cap would not reduce it further, would generate a net credit of £97,500, representing almost 10% of the contractor payment). Under the old SME scheme, it is possible that the company may not have been able to claim relief on any of the contracted-out payment (dependent on the specific facts and circumstances).

## Opportunities for Overseas Companies

While relief for pharmaceutical companies outside the charge to UK corporation tax will not be able to claim UK R&D relief, this does still present opportunities for these companies in a number of ways:

- Given that the R&D relief may instead be available for CROs, this can be taken into account when negotiating terms of contracts, as the CRO be able to pass some or all of the savings on to the company engaging it, thereby enabling services to be provided at competitive prices when compared to some other jurisdictions.
- When structuring its business, the company may wish to consider setting up in the UK to enable it to benefit from the R&D relief against its taxable profits subject to tax in the UK. Note, this is realistically only a viable option where a proper trade in the UK will be undertaken given the PAYE cap means relief would be restricted to £20,000 where there were no UK employees, and which could be outweighed by the costs associated with incorporating a company and setting up a trade in the UK.



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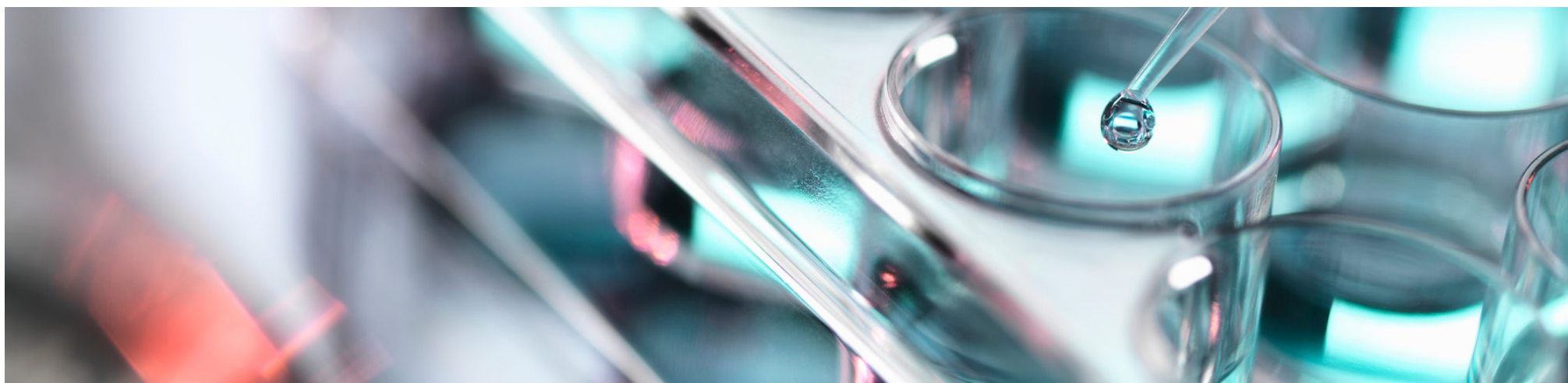
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