EASY R&D | GUIDE TO REVEX vs CAPEX

R&D tax reliefs are normally assessed against revenue expenditure (revex) that has an impact on the P&L. However, there are important nuances and details that need to be considered for every R&D tax relief claim. Not all expenditure will be eligible for corporation tax relief.

The question of whether an item is capital or revenue can be complex. It is important to gather as many details as possible to get to the crux of the issue.

10 key points that we use as at Easy R&D, as we prepare claims with our clients:

1. **Accountants and HMRC assess revenue and capital expenditure differently**, so a set of company accounts are not the sole determinant of what can be claimed for R&D tax relief.
    - For tax purposes, all claims should follow HMRC guidance on how to determine what is capital and what is revenue expenditure.
2. **R&D tax relief is claimed against eligible revenue expenditure**
    - These are the costs that are shown in a company's P&L
3. **All expenditure in a claim has to fit in at least one of the six categories that HMRC allow as eligible for an R&D tax relief claim**
    - Staff costs | Subcontractors | Externally provided workers | Software or consumable items | Payments to subjects of clinical trials | From April 2023 - Data & cloud computing costs
4. **Determining whether a cost is capital (capex) or revenue expenditure (revex) can be based on the benefit received and the length of time over which that benefit is received**
    - An enduring benefit (2 years of more) generated from an item usually suggests that the related costs were capital
5. **Whether an expenditure is a one-off or recurring cost may impact the assessment of whether a cost is revex vs capex**
    - Usually, recurring costs are considered revenue expenditure, but there are situations where recurring costs are considered capital if they relate to payments for a capital item (e.g. a hire purchase agreement).

6. **The nature of any recurring costs is important when assessing whether it counts as revex or capex**
    - Recurring costs that are related to financing tangible or intangible assets, over time, are still considered capital expenditure.
7. **On occasions employee costs can be considered as 'capitalised revenue expenditure'**
    - Usually, employee costs are seen as revenue expenditure, but some staff costs can be considered capital expenditure if the time and costs invested are creating long-term intangible asset value
    - This is often the case for software development projects
8. **Certain capital investment in either a tangible or intangible assets attract corporation tax relief in the year of the investment**
    - HMRC capital allowances, in some scenarios, allow the full cost of capital expenditure to be deducted for the purposes of corporation tax in the year that the cost was incurred
9. **HMRC will take a pragmatic stance on assessing whether a cost included in a claim is revenue or capital expenditure**
    - Generally, HMRC do not wish to argue over borderline cases of how costs are allocated and claimed. So their guidance recommends their officers do not pursue marginal cases. However, they will always expect a claim to identify what is clearly capital expenditure and to not include these costs in a claim
10. **At Easy R&D we specialise in advising our customers on what costs can and cannot be claimed for an Easy R&D claim**
    - Our goal is that every customer will optimise the value of every claim while avoiding preventable HMRC enquiries
    - Our expert and considered approach to R&D claims minimises the risk of an enquiry by HMRC, with claims backed by detailed technical evidence, while maximising the potential value of every claim

If you have any questions on how to recognise revenue or capital expenditure in an R&D tax relief claim, our expert team are here to help.

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