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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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CIRD123000 - R&D Tax Reliefs: reformed reliefs: ERIS: R&D intensity condition

R&D Intensity Condition CTA09/S1045ZA

CTA09/S1045ZA determines whether or not a company meets the R&D intensity condition. This guidance explains how R&D intensity is calculated, and when this is relevant. The calculation involves expenditure of both the claimant and of all companies connected to the claimant, whether based in the UK or elsewhere.

Application to the existing SME scheme (accounting periods beginning before 1 April 2024)

FA23/S4(3)(d) reduced the rate of the SME tax credit (CTA09/S1058) from 14.5% to 10% for expenditure incurred on or after 1 April 2023.

The Finance Act 2024 (FA24) makes retrospective provision to allow eligible R&D intensive SMEs to continue to claim the higher 14.5% rate of tax credit (“enhanced support”) for accounting periods which end on or after 1 April 2023 and begin before 1 April 2024. FA24 received Royal Assent on 22 February 2024. Claims made relying on the retrospective provision before this date are not valid.

To continue to claim the higher rate under the old SME scheme, an SME must have an R&D intensity of 40% or more to meet the intensity condition. Please note that the loss-making condition which applies to later accounting periods (see below), does not apply to these claims.

Enhanced R&D intensive support (accounting periods beginning on or after 1 April 2024)

Under the new rules, eligible companies are able to continue to claim SME-style relief (including the alternative treatment available under CTA09/S1045) with an additional deduction of 86% and a payable tax credit at a rate of 14.5% where, for an accounting period, in addition to meeting the existing SME scheme requirements ([CIRD90100 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird90100\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird90100)) the company:

is not an ineligible company ([CIRD163000 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird163000\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird163000))

- either:

- meets the R&D intensity condition or
- claimed under ERIS or the old SME scheme for its last 12-month accounting period **and** met the R&D intensity condition for that period

For accounting periods beginning on or after 1 April 2024, an SME must have an R&D intensity of 30% or more to meet the condition.

- makes a trading loss

This is the adjusted loss for tax purposes before the 86% additional deduction is taken.

Calculating the R&D intensity CTA09/S1045ZA(2)

This is given by the following calculation, which is here expressed as a formula for convenience. This formula does not appear in this form in the legislation.

$$I = [R1 + R2 + R3 \dots] / [T1 + T2 + T3 \dots]$$

Where...

I is the R&D intensity

R is, for each company to be considered, the **relevant R&D expenditure** (see below)

T is, for each company to be considered, the **total relevant expenditure** (see below)

For a company with no other connected companies, there will only be one value of R and one value of T, those for the company itself. For three connected companies (for example, three companies forming a corporate group), there will be three values of R and three values of T, and so on.

The companies to be considered for the purposes of this calculation are:

- The claimant company
- All other companies that were connected to the claimant company on at least 1 day in the accounting period to which the claim relates (CTA09/S1045ZA(8))

Guidance on connected persons can be found at [CIRD192000 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird192000\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird192000). The connected person rules which apply here are only those where a company is connected to another company.

Total relevant expenditure CTA09/S1045ZA(5)

Expenditure forms part of total relevant expenditure if:

- (a) in accordance with generally accepted accounting practice (GAAP), it is brought into account in calculating the profits for the period of any trade carried on by the company,

This is any amount of expenditure which is included in the company's GAAP accounts in the profit and loss account or income statement above the "profit before tax" line. The wording of this section reflects that used in CTA09/S46.

or

- (b) it is expenditure in respect of which the company is, for the period, entitled to relief under CTA09/S1045 (for SME scheme, see [CIRD90200 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird90200\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird90200); for ERIS, see [CIRD112300 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird112300\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird112300)))

or

- (c) in reliance on CTA09/S1308 ([CIRD81450](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81450) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81450>)) (expenditure brought into account in determining value of intangible asset allowable as a deduction), it is brought into account in calculating the company's profits for the period for corporation tax purposes.

But it doesn't include:

- expenditure consisting of a payment or other transfer of value to a connected company (excluded by CTA09/S1045ZA(6)(a))

This prevents, for example, double counting of intra-group recharges.

- an amount of amortisation required to be added back under CTA09/S1308(5) (excluded by CTA09/S1045ZA(6)(b))

This prevents double-counting of expenditure in respect of which a CTA09/S1308 deduction has been taken. Further guidance on CTA09/S1308 is available at [CIRD81450](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81450) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81450>).

Relevant R&D expenditure CTA09/S1045ZA(7)

This is expenditure which:

- either:
 - forms part of a company's **total relevant expenditure** (see below)

or

- would form part of a company's total relevant expenditure but for the fact that it is excluded by CTA09/S1045ZA(6)(a) - see above under total relevant expenditure.

and

- would, if the intensity condition were met, be Chapter 2 qualifying expenditure for the purposes of calculating the additional deduction under CTA09/S1044 or the alternative treatment under CTA09/S1045

For accounting periods beginning before 1 April 2024, R&D expenditure that was qualifying expenditure for RDEC but not SME relief will not form part of the relevant R&D expenditure. This does not align with the Technical Note published in March 2023 and HMRC is actively considering the best way to correct this issue through future legislation. In the meantime, customers should continue to submit claims where they expected to be entitled to the higher rate, and HMRC will not reject such claims because of this issue.

Period to be considered

For both relevant R&D expenditure and total relevant expenditure, expenditure is counted if it falls within the period of time covered by the accounting period of the claimant company, even if the accounting periods of the connected company being considered differ in length or in end date.

Claimants will need to identify the expenditure that relates to the period(s) under consideration. For accounting periods aligned with the accounting period of the claimant, the exact figures for that accounting period should be used.

Where there is a mismatch of accounting periods between the claimant and one or more connected company, or where a connected company is overseas (and so has no accounting period for UK tax purposes), a reasonable method should be used to attribute expenditure of the connected company to the period of time covered by the accounting period of the claimant company for which the claim is made. In certain circumstances it may be appropriate to apportion expenditure on

a time (day) basis. But in other cases it will be necessary to have regard to when expenditure was incurred to give a fair result, for example, where R&D expenditure is incurred unevenly through a period. Any basis adopted should be used consistently, and should fairly reflect the underlying economic reality.

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