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## HMRC internal manual

# Corporate Intangibles Research and Development Manual

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## CIRD89000 - R&D tax reliefs: Research and Development Expenditure Credit scheme: subsidies

Under GAAP the correct accounting treatment when a subsidy is received is that the subsidy is brought in as a receipt and the subsidised expenditure is recognised in full. Expenditure that is subsidised is therefore deductible in computing the profits of the trade and can attract R&D tax relief.

There is no provision in the large company scheme preventing subsidised expenditure from qualifying for R&D tax relief.

SMEs are able to claim R&D tax relief under the Research and Development Expenditure Credit scheme (CTA09/S104A(3)(b)), in respect of expenditure that is not allowed under the SME scheme if:

- the expenditure would have been allowable had the SME been a large company, and
- the expenditure does not qualify under the SME scheme only because it was subsidised ([CIRD81650](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81650) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81650>)) (including a notified state aid [CIRD81670](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81670) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81670>)), and
- The expenditure is incurred on or after 1 April 2016. For the period between 9 April 2003 and 31 March 2016 relief is available (subject to the transitional rules which cover the period between 1 April 2013 and 31 March 2016) under the large company deduction scheme, see CTA09/S1068. The transitional rules are found in FA13/Schedule 15.

Such claims relating to expenditure incurred between 9 April 2003 and 31 March 2016 give rise (subject to the transitional rules) to relief at the large company scheme rate and cannot give rise to payable credits.

Such claims in respect of later expenditure provide relief through the Research and Development Expenditure Credit scheme (RDEC) and do not give rise to further deductions in the claimant company's computations.

Guidance covering the RDEC scheme starts on page 89700 of this manual.

### **Example - Using both pre FA 2008 relief rates and the 2016 RDEC rate of 11%**

A Ltd (an SME company) incurs staffing costs of £500,000 in carrying out relevant R&D in an accounting period beginning 1 July 2003.

A charity provides a £100,000 grant toward the staffing costs for the year.

- £400,000 of the staffing costs are qualifying expenditure under the SME scheme; the 50% enhancement is £200,000, and
- £100,000 of the staffing costs are qualifying expenditure under the large company scheme. The 25% enhancement is £25,000. The RDEC is £11,000.

Using the 2008 relief rates the total enhancement is £225,000, any losses relating to the £25,000 enhancement under the large company scheme can't be surrendered for a payable credit.

Using the 2016 11% RDEC rate the total RDEC is £11,000, and this £11,000 is subject to corporation tax. There are no enhancements or further deductions in the company's corporation tax computations.

### **Example - Using the FA 2008 relief rates and the 2016 RDEC rate of 11%**

A Ltd (an SME company) incurs staffing costs of £500,000 in carrying out relevant R&D in the accounting period beginning 1 September 2008

A charity provides a £100,000 grant toward the staffing costs for the year.

- £400,000 of the staffing costs are qualifying expenditure under the SME scheme; the 75% enhancement is £300,000, and
- £100,000 of the staffing costs are qualifying expenditure under the large company scheme.

The 30% enhancement is £30,000. As with the previous example if this example is based in 2016 the RDEC is £11,000, there is no enhancement, no further deductions and the RDEC is liable to corporation tax..

- The total enhancement is £330,000, any losses relating to the £30,000 enhancement under the large company scheme can't be surrendered for a payable credit.

## Contrasting example

A Ltd (an SME company) makes a payment for externally provided workers of £500,000 in carrying out relevant R&D after 9 April 2003 but before 27 September 2003. (The dates are selected because 9 April 2003 is the date from when such expenditure qualified under the large company regime while the 27 September 2003 is the date for the SME regime.)

A charity provides a £100,000 grant toward this payment for the year.

- No expenditure is allowed under the SME scheme, and
- there is no allowable expenditure under the large company regime because the expenditure was not excluded from eligibility under the SME regime only because it was subsidised (when it was incurred it was also not incurred on qualifying expenditure under the SME regime in place at the time).

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