HMRC internal manual

Corporate Intangibles Research and Development Manual

From: **HM Revenue & Customs (/government/organisations/hm-revenue-customs)**

Published 11 March 2016

Updated: 10 September 2025 - **See all updates**

Back to contents

CIRD126000 - R&D Tax Reliefs: reformed reliefs: ERIS: out of period spend

ERIS applies to accounting periods beginning on or after 1 April 2024. Qualifying Chapter 2 expenditure will generally be eligible for relief in the accounting period in which it receives a tax deduction, even if it was incurred in a previous accounting period. Please note that expenditure must be qualifying Chapter 2 expenditure under Chapter 2 of CTA09 as it has effect for the accounting period in which the claim is made, regardless of when the expenditure was incurred.

To determine the appropriate rate of additional deduction, you must examine the rate that applied when the expenditure was incurred. This means that historic rates of SME relief will continue to be relevant to ERIS claimants who incurred expenditure in earlier periods, which receive a deduction in a post-1 April 2024 accounting period.

The rate of the tax credit for ERIS claims in accounting periods beginning on or after 1 April 2024 is 14.5%, regardless of when the underlying expenditure was incurred – but note that the enhanced expenditure rate, which is used to determine the amount available for surrender for a tax credit, will depend on when the expenditure was incurred.

Rates for ERIS and the old SME scheme are at CIRD127000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird127000).

Example – out of period spend - transition from SME to ERIS

An SME company draws up its accounts to 31 March. It incurs £150k of R&D expenditure (staffing costs) on 1 April 2022, which it capitalises within intangible fixed assets and amortises over a 3-year period on a straight-line basis. The company decides not to make use of CTA09/S1308. The company is exempt from the PAYE cap for all periods.

AP 1 – 31 March 2023 – SME scheme claim

£50,000 of amortised expenditure incurred on 1 April 2022 (i.e. in this period) receives a tax deduction. This is the company's only qualifying chapter 2 expenditure for the period. The company claims an additional deduction (AD) under the SME scheme of £50,000 x 130% = £65,000. This gives it a total unrelieved loss of £165,000. Its enhanced expenditure (EE) is £50,000 x 230% = £115,000. The company surrenders the lower of £165,000 and £115,000 (£115,000) for a payable tax credit at a rate of 14.5%. £115,000 x 14.5% = £16,675.

AP2 – 31 March 2024 – SME scheme claim

£50,000 of amortisation expenditure (incurred on 1 April 2022, out of period) receives a tax deduction. A further £60,000 of staffing costs is incurred on 1 April 2023, none of which is capitalised. The company's qualifying chapter 2 expenditure is £50,000 + £60,000 = £110,000. Though it makes its claim after 22 February 2024, the company does not meet the 40% R&D intensity condition for enhanced support. Its tax adjusted trading profit before any AD is taken is £50,000. It claims AD on its pre-1 April 2023 expenditure of £50,000 x 130% = £65,000. On its post-1 April 2023 expenditure, it claims an AD of £60,000 x 86% = £51,600. The total taken in ADs is £116,600. Its total unrelieved loss after these ADs is £66,600.

The EE amount for the pre-1 April 2023 expenditure is 230% x £50,000 = £115,000. For the post-1 April 2023 expenditure, the EE amount is186% x £60,000 = £111,600. The tax credit applying for the pre-1 April 2023 expenditure is 14.5%, but the rate for the post-1 April 2023 expenditure is 10%. Unlike the example given at CIRD90500 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird90500) it is not possible to apportion the unrelieved trading loss of £166,600 by financial year within the accounting period, because some of the expenditure was incurred out of period.

Accordingly, the company adopts the following reasonable basis of apportionment. It attributes the unrelieved loss to the underlying expenditure by reference to the % of the total amount of AD taken that is attributable to the AD taken for that expenditure. So, for the pre-1 April 2023 expenditure, the relevant portion of the total unrelieved loss (UL) of £66,600 is calculated as £65,000 (AD pre-1 April 23) / £116,600 (total AD) x £66,600 (UL) = £37,127, rounded to the nearest pound. The remainder of £29,473 is attributed to the post-1 April 2023 expenditure.

This gives the following tax credit calculations.

For the pre-1 April 2023 expenditure, the company surrenders the lower of £37,127 (UL portion) and £115,000 (EE) (£37,127) for a tax credit at a rate of 14.5%. £37,127 x 14.5% = £5,383.41. For the post-1 April 2023 expenditure, the company surrenders the lower of £29,473 (UL portion) and £111,600 (EE) (£29,473) for a tax credit at a rate of 10%. £29,473 x 10% = £2,947.30.

It receives a total of £5,383.41 + £2,947.30 = £8,330.71 of SME R&D tax credit (an effective tax credit rate of 12.5%).

AP3 – 31 March 2025 – ERIS claim

£50,000 of amortisation expenditure incurred on 1 April 2022 receives a tax deduction. This is qualifying chapter 2 expenditure under ERIS scheme, as it operates for accounting periods beginning on or after 1 April 2024. It also incurs other qualifying chapter 2 expenditure of £200,000 in the period. Its tax adjusted loss before taking any AD is £100,000. The company meets the intensity condition and the loss-making condition in this period.*

The company takes an AD of 130% x £50,000 = £65,000 for the pre-1 April 2023 expenditure. For the post-1 April 2023 expenditure, it takes an AD of 86% x £200,000 = £172,000. The total taken in ADs is £65,000 + £172,000 = £237,000. Its total unrelieved loss after ADs is £337,000.

For the pre-1 April 2023 expenditure, the EE amount is £50,000 x 230% = £115,000. For the post-1 April 2023 expenditure, the EE amount is £200,000 x 186% = £372,000.

The company adopts the same basis for identifying the relevant amounts of unrelieved loss (UL) as in AP2. For the pre-1 April 2023 expenditure, this is calculated as £65,000 (AD pre-April 23) / £237,000 (total AD) x £337,000 (UL) = £92,426 to the nearest pound. The remainder of

£244,574 is attributed to the post-1 April 2023 expenditure.

This gives the following tax credit calculations. Because the claim is under ERIS, the rate applicable for all expenditure 14.5%, regardless of when it was incurred.

For the pre-1 April 2023 expenditure, the lower of £92,426 (pre-April 23 UL portion) and £115,000 (EE) (£92,426) is surrendered at a rate of 14.5% for £13,401.77 payable tax credit.

For the post-1 April 2023 expenditure, the lower of £244,574 (post-April 23 UL portion) and £372,000 (EE) (£244,574) is surrendered at a rate of 14.5% for £35,463.23.

The company receives total payable tax credits under ERIS of £13,401.77 + £35,463.23 = £48,865.00

* If the company did not qualify for the intensive scheme the position would be as follows. Both the £50,000 of amortisation expenditure incurred on 1 April 2022 and the £200,000 qualifying expenditure which was incurred in, and taken as a deduction in, the accounting period ending on 31 March 2025 would be eligible under new RDEC. With a total qualifying expenditure of £250,000 that would lead to a gross RDEC credit claim of £50,000, at the RDEC rate of 20%.