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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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CIRD122000 - R&D Tax Reliefs: reformed reliefs: ERIS: ERIS calculation

For pre-trading companies, an election is available under CTA09/S1045 ([CIRD122300](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird122300>)). This page addresses relief for trading companies under CTA09/S1044 only. There are two claims possible under ERIS for trading companies:

- an additional deduction in calculating the company's adjusted trading loss

- to surrender all or part of the company's surrenderable loss for a payable tax credit.

The tax credit is not taxable income of the company.

A claim for payable tax credit is only possible where the company has made a claim for an additional deduction and has a surrenderable loss.

Under the nominations and assignments restrictions (CTA09/S1142C & D) the general rule is that HMRC will only pay an amount of ERS tax credit direct to the claimant company. Guidance on these restrictions is available at [CIRD81805](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81805) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81805>).

Additional Deduction

To calculate the amount of the additional deduction, the company's qualifying Chapter 2 expenditure for the accounting period ([CIRD122200](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird122200) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird122200>)) is multiplied by the additional deduction rate, currently 86% (CTA09/S1044(8)). This amount increases the company's trading loss.

The company does not have to claim the maximum available additional deduction.

Payable Tax Credit

Having taken the additional deduction, the company may surrender all or part of its surrenderable loss (subject to the PAYE cap – see [CIRD140000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird140000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird140000>)) for a tax credit, at a rate of 14.5% (CTA09/S0158(1)(a)). It does this by writing off the losses in its tax computations.

The company does not have to claim the maximum available payable tax credit.

The surrenderable loss (CTA09/S1055(2)) is the lower of:

- 186% of the qualifying Chapter 2 expenditure in respect of which an additional deduction has been taken (“the enhanced expenditure”)
- the amount of the loss that is “unrelieved”

The unrelieved loss (CTA09/S1056) is the total loss arising in the period (amounts of losses carried forward from a previous accounting period or carried back from a later accounting period are ignored per CTA09/S1056(3)), excluding any amounts on which:

- sideways relief was or could have been obtained by setting current year trading losses against total profits (CTA10/S37(3)(a))
- any other relief was obtained
- group relief was obtained

Note in particular that the first bullet point will act to limit the surrenderable loss amount for companies with other income, whether or not sideways relief is actually obtained.

Example

Company A is a singleton loss-making R&D intensive SME with qualifying chapter 2 expenditure in an accounting period beginning 1 April 2024. It is exempt from the PAYE cap. It makes a trade loss before relief of £50,000 and has no other chargeable income. It claims an additional deduction of £86,000 on its qualifying expenditure of £100,000, to give an increased trade loss of £136,000. The unrelieved loss is 100% of the trade loss arising. It can surrender the lower of £186,000 and $£136,000 = £136,000$ for a tax credit at 14.5%, with a value of £19,720.

Company B’s circumstances are exactly like Company A’s, except that Company B also has property business profits of £100,000. Whether or not it chooses to use £100,000 of its £136,000 increased trade loss to relieve its property business profits via sideways relief, its unrelieved loss is £36,000, not £136,000. It can surrender the

lower of £186,000 and £36,000 = £36,000 for a tax credit, with a value of £5,220.

Rates for ERIS and the old SME relief are given in [CIRD127000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird127000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird127000>).

The expenditure rules for ERIS are aligned with those for the new merged scheme RDEC, but please note that the heads of expenditure for each chapter appear under different sections in the statute. These are detailed in [CIRD131000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird131000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird131000>) and following. Special rules apply to companies registered in Northern Ireland – please see CIRD125000.

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