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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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CIRD89780 - R&D Tax reliefs: R&D expenditure credit (RDEC) scheme: payment of credit

Chapter 6A CTA 2009 S104N and 104O

These sections set out a series of steps to determine how the credit claimed should be dealt with:

Step 1

The credit discharges any corporation tax liability of the claimant company for the accounting period. The liability is not reduced by the credit but is settled by it like any other payment made by the company.

The RDEC is considered in respect of the liability for the accounting period and not the liability outstanding at the end of the accounting period, which may be different say as a result of QIPs.

If the discharge results in a repayment of liabilities paid at an earlier date, interest will be calculated on a last in first out basis (LIFO), giving the expected result that generally RDEC will not attract interest. The amount of RDEC remaining after the discharge is then subject to the following steps.

Step 2

This step restricts the potential payable element and ensures that loss makers receive the same net benefit as profit makers (the credit being taxable). This is achieved by retaining a 'notional' tax such that the total cash benefit for all claimants is equal to the expenditure credit net of tax at the main rate of corporation tax {oil and gas ring fence or non ring fence}. If it is not surrendered (see the next paragraph) the 'notional' tax retained under this step is carried forward and available to discharge the corporation tax liability of a later period of that company

In preference to carrying forward the tax retained, a group company can surrender the amount to another group company [CIRD89810](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89810) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89810>).

A restriction also applies if the amount remaining after step 1 is greater than the net value of the set-off amount. When (for example) because the RDEC exceeds the liability that amount is to be reduced to the net value of the set off amount.

This lesser amount is the amount taken forward to step 3.

If the amount remaining after step 1 does not exceed the net value of the credit proceed to step 3.

The net value of the credit is calculated by assuming that the credit is taxable at the main rate of corporation tax for the accounting period even if the company is actually paying tax at the marginal or lower corporation tax rates . If the accounting period straddles two financial years and subsequently two main rates of corporation tax, the main rate should be apportioned on a time basis

Step 3

This step further restricts any payable element to the company's total expenditure on R&D workers' PAYE and NIC for the accounting period.

The calculation of the capped credit for R&D workers' PAYE and NIC is set out at [CIRD89790](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89790) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89790>) and [CIRD89800](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89800) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89800>).

The amount which exceeds the cap is carried forward and added to any expenditure credit for the following accounting period.

Where the amount (of excess) is treated as an amount of RDEC for the accounting period by virtue of this step, having been brought forward from the prior year, it will not be subject to any further restriction at step 2 of the following year's calculation due to the sum having already been fully taxed.

Step 4

Any amount remaining after step 3 is used to discharge any outstanding corporation tax liabilities (due but not settled) of the company for any other accounting periods. The legislation does not prescribe a priority order here so it is up to the company decide. In the absence of any offset specified by the company, HMRC may use their discretion to apply the offset

Step 5

If the company is a member of a group it may surrender the whole or any part remaining after step 4 to any other group member, see [CIRD89810 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89810\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89810). A company can chose not to surrender any amount and it remains as a potentially payable credit but subject to steps 6 and 7. This contrasts with step 2 where the retained tax not surrendered is only available to discharge a future CT liability of the company.

Step 6

Any amount remaining after step 5 is used to discharge any other liability of the company to pay a sum to the Commissioners, for example VAT or liabilities under any contract settlement.

Step 7

The final amount remaining is payable to the company provided that the company is a going concern - [CIRD81130 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81130\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81130) refers.

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