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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD81160 - R&D tax relief: conditions to be satisfied: total aid to project €7.5m or less (SME and vaccines schemes only)

CTA09/Ss.1113 - 1118

With effect from 1 August 2008, there is a limit of €7.5m on the total amount of aid which can go to any one R&D project. Only expenditure incurred on or after this date is counted. For the definition of a project, see para 19 of the DSIT Guidelines (f) [\[CIRD81910 \(https://www.gov.uk/hmrc-internal-](#)

[manuals/corporate-intangibles-research-and-development-manual/cird81910](#)].

For this purpose, 'aid' is the total benefit that the company receives from SME R&D relief and vaccines research relief (either as actual tax reduction due to additional deductions or as payable tax credits) less the value of the relief that it would have received had it been a large company entitled to large company relief. The aid is calculated over the life of the project and is s defined at CTA09/S1114 as follows:

For expenditure incurred between 1 August 2008 and 31 March 2016

$$TC + R + (P \times CT) - (N \times CT)$$

And for expenditure incurred on or after 1 April 2016 (s48 Finance Act 2016)

$A = (TC + R + (P \times CT)) - N$ Note that in this formula A is the total R&D aid

Where:

TC is the total amount of SME tax credit paid in respect of enhanced expenditure attributable to the project.	defined at CTA09/S1115
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R is the total reduction in tax liability from setting enhanced expenditure under the SME R&D scheme against tax (whether the liability is that of the company itself or, by way of group relief, of any other company);	defined at CTA09/S1116
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P - the potential relief is any enhanced expenditure under the SME R&D scheme that has been claimed but not (at the time the calculation is made) brought into account, and;

defined at CTA09/S1117

N - For expenditure incurred on or after 1 April 2016 the notional R&D expenditure credit is the research and development expenditure credit which the company could have claimed in the accounting period if it had been a large company throughout the period. For expenditure incurred before 1 April 2016 the notional relief is calculated by applying the enhancement rate for the large company scheme to the expenditure upon which the company is claiming relief on under the SME scheme.

defined at CTA09/S1118

CT is the main rate of CT (or, for ring fence trades, the main ring fence profits rate) when the aid is calculated.

Example - pre 1 April 2016

C Ltd is a SME start-up carrying out research into innovative beverages. In the first year of the project, in which the company has no income, €10m is spent on research, all on qualifying R&D. The company is entitled to a deduction of 175% * €10m = €17.5m, all of which it can surrender for tax credit at a rate of 14% (assuming the company's PAYE and NIC liability is sufficient). The tax credit, TC, is therefore €2,450,000. R is

zero, as none of the R&D relief is used to reduce tax. P is zero, as all relief has been brought into account.

The R&D aid is therefore:

$$€2,450,000 + 0 + 0 - (130\% * €10m * 28\%) = - €1,190,000$$

The term in brackets represents the relief that the company would have received had it been a large company - 130% of the €10m R&D expenditure. The value of this is calculated at the main corporation tax rate, currently 28% - even though for the year shown, the company would not actually have paid any corporation tax

For this year, therefore, the aid is actually a negative amount.

Any expenditure which fails to qualify for SME or vaccines R&D relief because of this restriction is eligible instead for large company relief, provided it meets the normal conditions for that relief and is not qualifying sub-contracted R&D expenditure of the SME (CTA09/S1073)

Example - post 1 April 2016

C Ltd is a SME start-up carrying out research into innovative beverages. In the first year of the project, in which the company has no income, €10m is spent on research, all on qualifying R&D. The company is entitled to RDEC (we are assuming that the expenditure which qualifies under the SME scheme also qualifies for RDEC) of €1,200,000 (€10m at 12%) and under the SME scheme a deduction of 230% * €10m = €23m, all of which it can surrender for tax credit at a rate of 14.5% (assuming the company's PAYE and NIC liability is sufficient). The tax credit, TC, is therefore €3,335,000. R is zero, as none of the R&D relief is used to reduce tax. P is zero, as all relief has been brought into account.

The R&D aid is therefore:

$$€3,350,000 + 0 + 0 - €1,200,000 = €2,135,000$$

Any expenditure which fails to qualify for SME R&D relief because of this restriction is eligible instead for Research and Development Expenditure Credit provided that it meets the conditions for that relief.

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