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HMRC internal manual

Corporate Intangibles Research and Development Manual

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

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CIRD90200 - R&D tax relief: SME scheme: pre-trading expenditure

CTA09/Ss 1045 - 1048

Normally pre-trading expenditure is treated by **CTA09/S61** as incurred on the day that trading begins and so there is no relief for it until trading starts.

If an SME company incurs qualifying R&D expenditure (CIRD81300 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81300)) in a pre-trading accounting period then the company may make an election to deem 230% of that qualifying expenditure as a trading loss for that accounting period. If an election is made then CTA09/S61 does not apply to the qualifying R&D expenditure.

For periods on or after 1 April 2000, the deemed trading loss equates to 150% of the qualifying expenditure,175% in respect of expenditure incurred on or after 1 August 2008, 200% on or after 1 April 2011, 225% on or after 1 April 2012, 230% on or after 1 April 2015 and 186% on or after 1 April 2023.

The deemed trading loss can be relieved by:

- set off against any other profits it may have for that accounting period under **CTA10/S37(1)-(8)**,
- set off against any other profits for the previous 12 months under **CTA10/S37(3)(b) and S42** provided that it was entitled to a pre-trading R&D tax relief for that earlier accounting period,
- surrender as group relief,
- surrender for a payable tax credit (CIRD90500 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird90500)),
- carry forward as a loss of the future trade to be derived from the R&D under **CTA10/S45**.

Conditions for the election

The election for deemed losses for an accounting period:

- must be made by notice in writing to an officer of Revenue and Customs,
- must be made within 2 years of the end of the accounting period to which it relates,
- applies to **all** of the company’s qualifying R&D expenditure.

If the company claims to treat its qualifying pre-trading expenditure as a loss the expenditure is not treated as incurred on the first day of trading under**CTA09/S61**.