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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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Published 11 March 2016

Updated: 10 September 2025 - [See all updates](#)

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CIRD89940 - R&D Tax reliefs: R&D expenditure credit (RDEC) scheme: example 3: profit-making company but RDEC exceeds liability

Application of S104N CTA 2009

STEP 1

The set off amount is to be applied in discharging the corporation tax liability of the company for the accounting period.

	Values
Turnover	£15m
Other Income \nRDEC (@10%)	£1m
R&D	(£10m)
Other	(£2.5m)
Profit	£3.5m
CT profits	£3.5m @ 23% £805,000
CT Liability	£805,000
RDEC amount remaining\n(after discharging liability)	£195,000

The £195,000 is the amount of payable credit remaining after discharging the company liability for the period.

STEP 2

If the amount remaining after Step 1 is greater than the net value of the set-off amount that amount is to be reduced to the net value of the set-off amount.

Compare the amount remaining after step 1 with the net value of the credit i.e. after deducting the main rate of potential corporation tax on the credit.

	Values
Amount remaining from Step 1	£195,000 (1) with
Net expenditure credit (£1m less 23%)	£770,000 (2)
c/fwd lesser of (1) and (2) to Step 3	£195,000

STEP 3

If the amount remaining after Step 2 is greater than the company's total expenditure on workers for the accounting period (see section 104P)—

e) that amount is to be reduced to the amount of that expenditure (which may be nil),

and

f) the amount deducted under paragraph (a) from the amount remaining after step 2 is to be treated for the purposes of this section as an amount of R&D expenditure credit to which the company is entitled for its next accounting period.

The company's total expenditure on workers is based on the R&D workers' PAYE and NIC (with no restriction for time spent on R&D activity), and R&D group externally provided workers (but restricted to time spent on qualifying R&D activity)

Values

b/fwd from step 2	£195,000 (3)
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Relevant PAYE/NIC	£400000 (4)
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If (4) is less than (3) then amount is capped to that relevant PAYE/NIC. £195000 c/fwd to step 4.

STEP 4

The amount remaining after step 3 is to be applied in discharging outstanding liability of the company to pay corporation tax for any other accounting period.

Values

b/fwd from Step 3	£195,000
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Other period CT liability	£50,000
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Values

Balance c/fwd to Step 5	£145,000
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£50000 has been used to settle another year's company liability.

STEP 5

If the company is a member of a group, it may surrender the whole or any part of the amount remaining after step 4 to any other member of the group (see section 104R).

Values

b/fwd from Step 4	£145,000
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CT liabilities of the Group	£ nil
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Balance c/fwd to Step 6	£145,000
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STEP 6

The amount remaining after step 5 is to be applied in discharging any other liability of the company to pay a sum to the Commissioners under or by virtue of an enactment or under a contract settlement.

Values

b/fwd from Step 5	£145,000
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CT liabilities of the Group	£ nil
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Balance c/fwd to Step 7	£145,000
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STEP 7

	Values
Payable to company	£145,000
Summary	
Discharge against current liability (Step 1)	£805,000
Set off against company liability from another period (Step 4)	£50,000
RDEC paid (Step 7)	£145,000
Total	£1,000,000

The amount remaining after Step 6 is payable to the company by an officer of Revenue and Customs but subject to S104S i.e. that the company is a going concern.

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