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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD75600 - VRR: how relief is given: SMEs

FA02/SCH13/PARA13 - 20, FA02/SCH14

The general rule is that when an SME that is carrying on a trade is entitled to VRR for an accounting period the company may claim an additional deduction equal to 50%, deduced to 40% in respect of expenditure incurred on or after 1 August 2008, of the qualifying expenditure for that accounting period.

In the exceptional case where the qualifying expenditure does not qualify for R&D tax relief for SMEs (CIRD90000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird90000)onwards) the company may claim a deduction equal to 150%, reduced to 140% in respect of expenditure incurred on or after 1 August 2008, of the qualifying expenditure for the accounting period.### Pre-trading expenditure

If a company is entitled to VRR for pre-trading qualifying expenditure for an accounting period it may elect to be treated as if that pre-trading expenditure is a trading loss it had incurred in that accounting period. The election must specify the accounting period for which it is made and be made by notice in writing to the Inland Revenue not later that two years after the end of the accounting period to which it relates.

If the company is not entitled to R&D tax relief for the qualifying expenditure the trading loss is 150%, reduced to 140% in respect of expenditure incurred on or after 1 August 2008, of the pre-trading qualifying expenditure.

These are the rules that apply where a company has treated pre-trading qualifying expenditure as a trading loss:

- The company cannot treat that expenditure as incurred on the first day of trading.
- The company cannot carry back the pre-trading loss to set against profits of an earlier accounting period unless it is entitled to relief for pre-trading vaccine research expenditure for that earlier period.
- When the company starts to trade it can treat the pre-trading loss as a trading loss brought forward to the extent that it has not already had relief for the loss or surrendered it as group relief.

Tax credit

A SME can claim a tax credit, which is known as a vaccine tax credit, if it is entitled to VRR for an accounting period and has a trading loss or a pre-trading loss for that accounting period. When it claims vaccine tax credit it receives a payment in exchange for the loss. The amount of the loss that may be surrendered in exchange for a payment of tax credit is called a surrenderable loss.

The surrenderable loss for an accounting period is the lower of the unrelieved trading loss for that period and the VRR for that period.

The unrelieved trading loss for an accounting period is the trading loss for that period less:

- any amounts that could have been set against other income of that period, and
- any losses relieved in some other way, for example by being carried back against profits of an earlier accounting period.

When you make your calculations ignore any losses brought forward from earlier accounting periods and losses carried back from later accounting periods.

Example Drugs Unlimited PLC is entitled to VRR of £4 million for its accounts year ended 30 June 2005. It has losses brought forward £2 million and a trading loss of £3 million for that year. This means that its unrelieved trading loss is £3 million. The losses brought forward of £2 million are ignored. Its surrenderable loss is £3 million because that is the lower of its unrelieved trading loss, £3 million, and the VRR, £4 million.

If a company claims vaccine tax credit the Revenue pays it the amount of the credit, at a rate of 16% unless:

- the company has outstanding CT liabilities, or
- there is an enquiry into the company’s return for the accounting period for which vaccine tax credit is claimed.

If there are outstanding CT liabilities the vaccine tax credit may be used to discharge them. If that happens the vaccine tax credit is treated as paid to the extent that it is used like that. For example, if a company is entitled to vaccine tax credit of £1 million and has outstanding CT liabilities of £600,000, use £600,000 of the vaccine tax credit to discharge the CT liabilities and pay the company the balance of £400,000.

If there is an enquiry into the company's return payment may be withheld until the enquiry is completed. You may make provisional payments before the enquiry is completed.

Do not pay vaccine tax credit for an accounting period until the company has paid its PAYE and Class 1 NICs for payment periods ending in that accounting period.

Deduct the loss surrendered for vaccine tax credit when you calculate the trading losses to carry forward.

The amount of vaccine tax credit that a company is entitled to for an accounting period is 16% of the surrenderable loss for that period. There is a limit to this. The total tax credits (SME payable R&D tax credits CIRD90000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird90000)and vaccine tax credit) payable to a company for an accounting period may not be more than the company's PAYE and NIC liabilities for payment periods ending in that accounting period.

Do not treat a payment of vaccine tax credit as income of the company. This means that the company does not have to pay tax on it.

Claims for vaccine tax credit must be made in the company's return or amended return for the accounting period for which it is made and must specify the amount claimed.

This is the normal time limit for claims. A claim may be made, amended or withdrawn at any time up to the first anniversary of the filing date for the return for the accounting period for which the claim is made. The Revenue may extend this time limit.

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