HMRC internal manual

# Corporate Intangibles Research and Development Manual

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# CIRD89710 - R&D Tax reliefs: R&D expenditure credit (RDEC) scheme: calculation of credit

## Chapter 6A CTA2009 S104M

The rules for identifying qualifying activity and calculating qualifying expenditure remain unchanged. It is only the way relief is given that is different.

Relief is now given as a taxable credit calculated as a percentage of the qualifying expenditure for the relevant accounting period. The expenditure credit rate is currently set at 20% (for expenditure incurred on or after 1 April 2023) of qualifying expenditure. For North Sea ring fenced trades the relevant percentage is 49% ensuring that ring fence companies receive a similar benefit to that received under the large company scheme.

The payable credit element is however subject to certain restrictions (see CIRD89780 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89780)):

- The credit is first used to discharge the CT liability of the claimant company for the same accounting period.
- The balance may be subject to an adjustment to reduce the amount available to a net of tax amount which is available to discharge future CT liabilities.
- Any balance remaining is capped by the PAYE/NIC of the R&D staff (with no restriction for time spent on qualifying R&D activity) and externally provided workers provided by the same group as the claimant (restricted to the proportion of time spent on qualifying R&D activity). Any amount which exceeds the cap is carried forward and treated as an expenditure credit for the next accounting period.
- The amount remaining that can potentially be a payable credit then discharges corporation tax liabilities for any other period.
- If the company is a member of a group it may surrender any amount remaining for a corresponding accounting period.
- The payable credit element remaining is applied in discharging any other outstanding liability of the company to HMRC.
- Claims are subject to a ‘going concern’ test (see CIRD89820 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89820)).

After all restrictions and set offs have been applied, the remaining amount is payable in cash.

### Processing the payment of the RDEC

Claims will generally be processed manually. When a return is made with a claim for RDEC, the applicable set offs will be made against the company's record with an effective date of payment (EDP) of the day of set-off. If there is a cash payment due to the company, the EDP will be the day all set off has been actioned. The RDEC does not carry interest however our current systems mean that small amounts may arise as a result of the processing. HMRC will not seek to recover these amounts, however it is important to note that they are not an entitlement.

## Calculation of RDEC for accounting periods spanning 1 April 2023.

Corporation tax is assessed and charged by reference to accounting periods. Company profits arising in an accounting period are apportioned between the financial years (FY) in which the accounting period falls. S8(5) CTA09 requires that the profits of an accounting period must be apportioned between financial years by reference to the number of days in the period.

RDEC on qualifying expenditure may only be calculated at the rate which applied at the time that the expenditure was incurred.

- Identify each tranche of qualifying R&D expenditure claimed in the accounting period on the basis of which rate applied when the expenditure was incurred. In some circumstances the RDEC rate may be neither 13% or 20%.
- While the rate is 20% for expenditure from 1 April 2023 onwards, increased from 13%, different rates applied before that and expenditure incurred in an earlier accounting period, and which is amortised or impaired to

the P+L in the later period allowing a claim, might have been incurred when a different rate applied

- Apply the relevant rate of RDEC to each tranche of qualifying expenditure to calculate the RDEC which the company may claim for FY 2022 and FY 2023.
- The tax profit/loss for the whole accounting period is calculated, including the RDEC calculated above which should be treated as a receipt.
- The Steps described in s104N CTA09 should be applied to the RDEC. Where Step 2 is relevant, the net value of the credit is calculated by applying the main rate of corporation tax for the accounting period. Here, the main rate should be apportioned on a time basis.

Example

For the accounting period ended 31 December 2023 Company A incurred the following qualifying expenditure:

- FY 2022 (1/1/2023 to 31/3/2023) £25,000
- FY 2023 (1/4/2023 to 31/12/2023) £75,000

Taxable profits for the accounting period before RDEC were £30,000

RDEC

FY 2022 RDEC - £3,250 (£25,000*13%)

FY 2023 RDEC - £15,000 (£75,000*20%)

Profit

Profit before RDEC £30,000

Plus

RDEC £ 18,250

Profit for period £  48,250

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