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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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CIRD89950 - R&D Tax reliefs: R&D expenditure credit (RDEC) scheme: example 4: loss making year 1 profit making year 2

Application of S104N CTA 2009

Year 1 - Loss Making

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	£9m
Other Income \nRDEC (@10%)	£1.5m
Expenditure	
R&D	(£15m)
Other	(£5m)
Profit/(Loss) before credit	(£9.5m)
CT due	NIL
Amount remaining\n(no liability to be discharged)	£1.5m

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	£1,500,000 (1) with
Net RDEC (£1.5m less 23%)	£ 1,155,000 (2)
c/fwd lesser of (1) and (2) to Step 3	£ 1,155,000

The restricted amount is not available as a payable credit now or in future but can discharge

later year's company liability. £345,000 carried forward to following years and brought in at step 1 in preference to a later year's payable credit.

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)—

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

and

d) 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	£1,155,000 (3)
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PAYE/NIC liability	£1,200,000 (4)
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As (4) is more than (3) the amount is not capped but carried forward to Step 4

STEP 4

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

Values

b/fwd from Step 3	£1,155,000
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Values

Other period CT liability	£200,000
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Balance c/fwd to Step 5	£955,000
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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	£955,000
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CT liabilities of the group	£ nil
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Balance c/fwd to Step 6	£955,000
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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	£955,000
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Any HMRC liability	£ nil
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Amount remaining	£955,000
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STEP 7

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.

	Values
Payable to company	£955,000
Summary	
Tax withheld available to set off against next year's liability (Step 2)	£345,000
PAYE capped credit c/fwd (Step 3)	£ nil
Company CT liability of other accounting period (Step 4)	£200,000
Paid to company (Step 7)	£955,000
Total	£1,500,000

Year 2 - Profit making (assume that the previous years losses were group relieved)

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	£30m
Other Income	
RDEC (@10%)	£2m
Expenditure	
R&D	(£20m)
Other	(£5m)
Profit	£7m
CT profits	£7m @ 23% £1,610,000

	Values
RDEC b/fwd Year 1	£345,000
RDEC Year 2	£2m
RDEC remaining (after discharging liability)	£735,000

The £735,000 is the amount of payable credit remaining after discharging the corporation tax liability for the period first using the amount RDEC brought forward, then discharging the balance with the current year RDEC.

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	£735,000 (1) with
Net RDEC (£2m less 23%)	£1,540,000(2)
c/fwd lesser of (1) and (2) to Step 3	£735,000

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)—

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

and

b) 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	£735,000 (3)
Relevant PAYE/NIC	£600,000 (4)

If (4) is less than (3) then the amount is capped.
£600,000 c/fwd to step 4

£135,000 is no longer potentially payable for this period but is carried forward to the following accounting period and added to any expenditure credit for that period and subject again to Steps 1 to 7.

STEP 4

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

Values

b/fwd from Step 3	£600,000
Other period CT liability	£100,000
Balance c/fwd to Step 5	£500,000

£100,000 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	£500,000
CT liabilities of the Group	£400,000
Balance c/fwd to Step 6	£100,000

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	£100,000
Set off against any other liability	£ nil
Amount remaining	£100,000

STEP 7

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.

	Values
Payable to company	£100,000

	Values
Summary	
Discharge against current liability (step 1)	£1,265,000
RDEC credit c/fwd (step 3)	£135,000
CT liability for another accounting period (step 4)	£100,000
CT liabilities of the group (step 5)	£400,000
RDEC paid	£100,000
Total	£2,000,000

The RDEC £345,000 brought forward from year 1 has also been fully utilised

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