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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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[Back to contents](#) > [CIRD80000](#) > [CIRD89700](#)

CIRD89930 - R&D Tax reliefs: R&D expenditure credit (RDEC) scheme: example 2: loss making company in receipt of RDEC)

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	£6m
Other Income	
RDEC (@10%)	£1m
Expenditure	
R&D	(£10m)
Other	(£5m)
CT Profit (Loss) before credit	(£8m)
CT due	NIL
RDEC amount remaining	£1m
no liability to be discharged)	

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	£1,000,000 (1) with
Net RDEC (£1m less 23%)	£ 770,000 (2)
c/fwd lesser of (1) and (2) to Step 3	£ 770,000

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

later year's company liability. £230,000 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	£770,000 (3)
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PAYE/NIC liability	£400,000 (4)
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If (4) is less than (3) - capped, £400,000 c/fwd to Step 4

£370000 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	£400,000
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Other period CT liability	£200,000
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Balance c/fwd to Step 5	£200,000
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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	£200,000
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CT liabilities of the group	£ nil
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Balance c/fwd to Step 6	£200,000
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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	£200,000
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Any HMRC liability	£ nil
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Amount remaining	£200,000
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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	£200,000
Summary	
Tax withheld available to set off	
against next year's liability (Step 2)	£230,000
PAYE capped credit c/fwd (Step 3)	£370,000
Company CT liability of other accounting period (Step 4)	£200,000
Paid to company (Step 7)	£200,000
Total	£1,000,000

← **Previous page**
 (/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89920)

→ **Next page**
 (/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird89940)



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