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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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CIRD122200 - R&D Tax Reliefs: reformed reliefs: ERIS: calculation: amount of qualifying expenditure

Qualifying Chapter 2 expenditure is expenditure of an R&D-intensive loss-making SME (see [CIRD123000 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird123000\)](#)) that is:

- Not attributable to an exempt foreign permanent establishment ([CIRD190000 \(https://www.gov.uk/hmrc-internal-manuals/corporate-](#)

[intangibles-research-and-development-manual/cird190000](#)))

- Revenue in nature (see [CIRD81700](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81700>), [BIM35000](#) (<https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim35000>))
- Allowable as a deduction in calculating the company's profits chargeable to corporation tax for the period in which the claim is made. A deduction permitted by CTA09/S1308 is an allowable deduction (see [CIRD81450](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81450>))
 - Alternatively, pre-trading companies can make an election under CTA09/S1045, see [CIRD122300](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird122300>).
- Incurred by the company on R&D activity for tax purposes (see [CIRD81910](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81910>)) that is relevant to the company's existing or intended trade (see [CIRD81400](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81400>))
 - For data and cloud computing costs ([CIRD135000](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird135000>)), companies can only include expenditure on direct R&D costs – not on qualifying indirect activities within the exhaustive list given at Para. 31 of the DSIT guidelines ([CIRD81910](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird81910>))
- Not attributable to R&D contracted out to the claimant, unless the client is, or is treated as, an irrelievable client (see [CIRD160000](#)

<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird160000>) and following)

- Within one of the qualifying costs categories (see [CIRD130000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird130000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird130000>))
- For contracted out R&D costs (see [CIRD138000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird138000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird138000>) and CIRD160000):
 - incurred on activity in the UK or exempt from the overseas restrictions in virtue of CTA09/S118A (see [CIRD150000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird150000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird150000>)) or under the Northern Ireland regulations (see CIRD125000) and
 - restricted to 65% of payments to unconnected contractors (where connected parties or parties who have elected to be treated as connected are involved, more than 65% of payments to contractors may be claimable – see CIRD138000)
- For EPW costs, either:
 - incurred on EPWs whose earnings are, wholly or in part, subject to UK PAYE (see [CIRD137000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird137000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird137000>)), or incurred on R&D activity based outside the UK for which the CTA09/S1138A exemption applies (see CIRD150000), or which is exempt from the overseas restrictions under the Northern Ireland regulations (see CIRD125000) and
 - restricted to 65% for unconnected EPW payments (where connected parties or parties who have elected to be treated as connected are involved, more than 65% of payments to EPW's may be claimable – see CIRD137000)

- Where applying, not in excess of the limit on relevant net benefit under the Northern Ireland regulations (see CIRD125000)
- Paid before the claim is made (see [CIRD132000 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird132000\)\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird132000))

Transitional provisions apply in certain circumstances, please see [CIRD165000 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird165000\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird165000).

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