



# Merged Scheme RDEC and Enhanced R&D Intensive Support



The merged scheme R&D expenditure credit (RDEC) and enhanced R&D intensive support (ERIS) replaced the old RDEC and small and medium-sized enterprise (SME) schemes and came into effect for accounting periods beginning on or after 1 April 2024.

## Benefits of the merged scheme RDEC

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The merged scheme RDEC is primarily based around the current RDEC rules, but with the addition of some of the more beneficial aspects of the SME scheme.

- + A single set of qualifying rules for most R&D businesses;
- + A more generous PAYE and National Insurance contributions cap than under the old RDEC scheme, which was previously applied to the SME scheme;
- + Removal of the subsidised expenditure rules, enabling SMEs to claim relief for work for which they receive a grant or other subsidy;
- + Ability for more large companies to claim for the costs of work contracted out;
- + Removal of the complex rules around qualifying bodies; and
- + Increased certainty and clarity for claimants through the move to an above the line tax credit.

The merged scheme RDEC is a taxable expenditure credit and can be claimed by eligible trading companies within the charge to UK Corporation Tax.

## The Enhanced R&D Intensive Support (ERIS) scheme

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**ERIS** replaces the R&D intensive SME scheme. It is only available to SMEs who are loss-making for tax purposes before any additional R&D deduction is taken.

**Relevant R&D expenditure** (including that of any connected companies) must be at least 30% of its total relevant expenditure to meet the intensity condition for ERIS.

Relevant R&D expenditure is expenditure on which R&D relief could be claimed for the period, whether or not a claim is actually made. Only trading companies chargeable to UK Corporation Tax can have relevant R&D expenditure.

Generally, **the intensity condition** should be met within the period for which the claim is made. However, there is a grace period, which means a claim can be made if the condition was met in the last 12-month accounting period and a valid claim to SME relief or ERIS was made in that period on expenditure incurred on or after 1 April 2023.

Loss-making SMEs can claim under the merged scheme RDEC, even if they are eligible for enhanced R&D intensive support, but claims cannot be made under both schemes for the same expenditure.

## Merged scheme RDEC rates

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- + The rate of R&D expenditure credit is 20% (the same as the rate under the old RDEC scheme for expenditure incurred on or after 1 April 2023);
- + For loss-makers and small-profit makes (total profits chargeable to Corporation Tax of less than £50,000, excluding the RDEC claimed,) a lower rate of notional tax restriction of 19% applies; and
- + For all other companies, the restriction applies at the Corporation Tax main rate of 25%.



## Example of tax relief through the merged scheme RDEC

If a company incurs qualifying expenditure during the year ended 31 March 2025 of £100,000, the RDEC tax credit is £20,000. Assuming a corporate tax rate of 25%, the £20,000 RDEC gives rise to corporation tax of £5,000 which is offset by the £20,000 RDEC credit resulting in a tax saving of £15,000, meaning an effective rate of relief of 15% of the qualifying R&D expenditure.

## ERIS rates

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ERIS allows loss-making R&D intensive SMEs to

- + **Deduct an extra 86% of their qualifying** costs (additional deduction) in calculating their adjusted trading loss, as well as the 100% deduction which already appears in the accounts, **to make a total of 186% deduction**; and
- + **Claim a tax credit of up to 14.5% of surrenderable losses.**

## Qualifying expenditure

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Many of the rules regarding qualifying R&D activity are the same in the merged scheme RDEC as in the old RDEC and SME schemes.

Claims cannot be made if the advance is sought in

- + The arts;
- + Humanities; and
- + Social sciences, including economics.

A qualifying project may research or develop a new process, product or service or improve an existing one. It must also relate to the company's trade – this can either be an existing trade or one that is intended will be started based on the results of the R&D.

To claim relief on either the merged scheme RDEC or ERIS, claimants must be able to demonstrate how their project meets the tax definition of R&D for tax purposes.

Our team are able to advise on the specific criteria regarding qualifying expenditure, including what constitutes contracted out R&D, subcontractor costs, staffing costs and eligible software costs.

Further information on claiming R&D tax reliefs and projects that count as R&D can be found [here](#).

## Calculating R&D relief

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There are several steps involved in calculating available relief, with the initial one being to calculate the total expenditure that is directly attributable to R&D (including both direct R&D and qualifying indirect activities.)

Expenditure that has not been paid before the claim is made is not eligible for relief.

The qualifying expenditure is then multiplied by the applicable credit rate.

## PAYE cap

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The amount of the PAYE cap for claims under both the merged scheme RDEC and ERIS is £20,000 plus 300% of the company's relevant PAYE and National Insurance contributions liabilities.

## Changes to the R&D claim process

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For accounting periods starting on or after 1 April 2023, companies are now required to notify HMRC within 6 months of the end of the accounting period that they intend to make an R&D claim. Notification will not be required if the company has made an R&D claim for any of the 3 previous years.

All companies are now required to file an online Additional Information Form (AIF) to HM Revenue and Customs before filing a tax return with an R&D claim. If no AIF is filed, the R&D claim will be rejected automatically.

The AIF contains details of the quantity and motive of the R&D expenditure, as well as details of the company's R&D Senior Officer responsible for the claim.

## Making a claim and how M+A Partners can help

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Certain steps must be taken prior to claiming your R&D tax relief to ensure the claim is valid. **M+A Partners** is experienced in advising on eligibility for R&D tax relief, providing expert services to guide you through the process.

If you think you have undertaken R&D projects that exhibit the qualifying conditions referred to in this factsheet, why not have an initial discussion with one of our specialists to see how you might benefit from this regime.



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