The R&D Expenditure Credit (RDEC) scheme was introduced on 1 April 2013 and allows the benefit of the R&D for tax purposes to be accounted for within the Profit and Loss (P&L) account, above profit before tax, rather than only through the tax account.

The principal intention for the introduction of a RDEC scheme is to increase the visibility and certainty of the UK R&D incentive benefit for large companies. Additionally, it is to provide greater financial support to loss making large companies through having the RDEC payable even where there is no corporation tax liability (subject to certain caps).

**Summary of changes**

The Government has decided that the RDEC will be:

- A taxable credit paid at a headline rate of 11% from 1 April 2015. For a 20% taxpayer, this typically results in an 8.8% net benefit after tax.
- The taxable credit has increased to 12% from 1 January 2018. For a 19% taxpayer, this will typically result in a 9.7% net benefit after tax.
- Some companies with nil corporation tax liability may be eligible for a payable tax credit subject to a PAYE/NIC cap.
- A taxable credit paid at a headline rate of 49% for companies in the oil and gas ring-fence
- Available for qualifying expenditure incurred on or after 1 April 2013.
- Available to surrender to group companies.
Timing
The RDEC was introduced alongside the super-deduction scheme on 1 April 2013 and fully replaced the super-deduction scheme in April 2016. Companies have been able to claim a R&D incentive benefit via the RDEC for expenditure incurred on or after 1 April 2013. The election is made in the corporation tax return and will be subject to same time limits as the super deduction regime, i.e., an election must be made within two years of the end of the accounting period.

PAYE & NIC cap
The payable credit under the RDEC is limited to the amount of PAYE/NIC liabilities in relation to the sum of:
► The full PAYE/NIC liabilities of a company’s R&D staff; plus
► The PAYE/NIC liabilities of externally provided workers (EPW) from a group company but limited to their R&D activities.

The amount up to the cap can be utilised in a variety of ways including group relieved or offset against other tax liabilities of the claimant company. The order of offset is prescribed by legislation.

The excess over the cap will be treated as an additional RDEC in the following accounting period. This excess can be carried forward.

Groups
Under the old super-deduction scheme, a company was able to surrender losses created by the R&D incentives claim to a profitable member of the same group. To ensure that groups are not disadvantaged under the RDEC regime, companies will be able to either:
► Surrender the credit, in whole or in part, to set against the corporation tax liability of a group member; or
► Surrender the tax withheld on a payable credit to be set against the corporation tax liability of a group member.

Accounting treatment
The RDEC will operate like a grant and will be payable even if a company does not have sufficient tax liabilities. The Government has stated that it believes companies will be able to account for the fully payable RDEC under both UK GAAP and IFRS, the relevant accounting standards being ‘Accounting for Government Grants’, SSAP4 and IAS20 respectively. The amount to be accounted for and when is a matter for discussion with a company’s auditors.

Companies have a number of options available to them in order to allocate the credit against their R&D expenditure within the P&L. Companies may opt to, for example:
► Include the total RDEC in ‘other income’; or
► Offset it against the ‘relevant expenditure’, such as wages & salaries costs within admin expenses.