Enhanced R&D intensive support (ERIS) for small and medium sized enterprises

Enhanced R&D intensive support is a very generous corporation tax relief aimed at loss-making small and medium sized enterprises (SMEs) that invest heavily in R&D. It has the potential to increase a company's tax losses or entitle a company to receive a cash tax credit.

R&D tax relief has undergone a significant overhaul in recent years. For accounting periods beginning on or after 1 April 2024 there are two R&D tax relief schemes:

1. Enhanced R&D intensive support (ERIS) relief for loss-making small and medium sized companies (SMEs)

2. The merged scheme R&D expenditure credit (new RDEC)

This factsheet covers tax relief under the ERIS scheme.

You may be aware of the old SME Scheme and the old RDEC scheme. These schemes are still used for accounting periods beginning before 1 April 2024, and are covered on separate factsheets, as is the new RDEC scheme

Research and development for tax purposes

Research and development for tax purposes takes place when a project seeks an advance in knowledge or capability in a field of science or technology.

The project must aim to achieve an advance in the field – not just for the company – although if a particular advance has already been made, but it is a trade secret, work to achieve that advance can still qualify for R&D relief.

Only activities that directly contribute to this advance through the resolution of scientific or technological uncertainty are classified as R&D.

Which companies qualify for ERIS?

ERIS is the most generous R&D relief available, however it is only available to companies that meet the following three conditions:

Condition 1: The company must be loss-making

The company must make a trading loss for tax purposes before R&D relief.

Condition 2: The company must be a small or medium-sized enterprise

The company must meet the SME size threshold. To meet this threshold, the company must have fewer than 500 employees, and have either:

- An annual turnover not exceeding €100 million.
- A balance sheet total not exceeding €86 million.

The thresholds do not look at the company in isolation. Where the company is part of a group, or there are external investors, it can get complicated to establish if these thresholds have been exceeded, therefore professional advice should always be sought.

Condition 3: The company must be R&D intensive

The relevant R&D expenditure of the company must be at least 30% of its total expenditure. Where the company is connected to other companies, their combined expenditure is used for the test.

The connected company rules used for R&D are widely scoped and therefore professional advice should always be sought to determine whether companies are connected and therefore whether relief under ERIS is available.

How does the ERIS scheme work?

The relief works by giving a company an extra deduction of 86% of certain expenditure from its loss for tax purposes.

The company then has a choice – it may claim an R&D tax credit in cash from HMRC or it can carry its loss forward to set against the profits of future periods.

The tax cash credit is up to 14.5% of the lower of:

- The whole deduction made in respect of R&D costs.
- The taxable trading loss for that accounting period.

Claiming the payable R&D tax credit will not always be the best choice for a company. If the losses are carried forward to future years, the rate of tax relief when they are used may be greater than the effective "cash back rate" of 14.5%.

For many companies the cash flow advantage that the payable R&D tax credit claim brings will outweigh any future tax advantage. For example, a loss-making company has qualifying expenditure of £200,000. The company has two options:

Option 1

Surrender their losses for a tax credit under the ERIS scheme. They could receive a tax credit of up to £53,940 – their cash benefit would be 26.97% of their R&D expenditure.

Option 2

Carry their losses forward to offset against their profits in future periods. They could save tax of up to £93,000, based on the current main rate of corporation tax (25%). This would be a cash benefit of 46.5% of their R&D expenditure. However, they will only save any tax at all if they become profitable, the quantity of the tax saving is uncertain given future tax rates are subject to change, and this might not be for many years.

The relevant R&D expenditure

Relevant R&D expenditure is revenue expenditure (whether expensed or capitalised as an intangible asset) on R&D in the following areas:

Staffing costs: Salary costs, employer's National Insurance contributions and employer's pension contributions.

Externally provided R&D workers (externally provided workers must be paid through a UK payroll, with very limited exceptions)

Consumable items: Actual physical materials that are consumed in R&D.

Software used in R&D.

Water, fuel and power used directly in carrying out R&D.

Data licensing and cloud computing costs.

R&D subcontracted to third parties (the subcontracted activities must take place in the UK, with limited exceptions).

Clinical trial volunteers: any payments made to them as part of the R&D project.

The R&D intensity

As set out above, a company can only qualify for ERIS if its **relevant R&D expenditure** makes up at least 30% of its **total expenditure**.

Relevant R&D expenditure is defined above.

Total expenditure consists of total trading revenue expenditure, including revenue expenditure capitalised as part of an R&D intangible asset where a corporation tax deduction is included. Where there are payments to connected companies, these would be excluded from the total expenditure.

At the margins, where a company is near the magical 30% intensity threshold, additional R&D investment can save the company money, by actually reducing its net expenditure. We have an example below – the figures use the rates as apply for the year ended 31 March 2025, assuming the company in example 1 pays corporation tax at the small profits rate of 19%.

	Example 1	Example 2
A. Income	£nil	£nil
B. R&D expenditure	£210,000	£240,000
C. Total expenditure	£720,000	£750,000
D. R&D intensity (B/C)	29%	32%
E. R&D intensive?	No	Yes
F. R&D scheme available for claim	New RDEC scheme	ERIS
G. Cash tax credit receivable	£34,020	£64,728
H. Total net expenditure (C-G)	£685,980	£685,272

Cap to the tax credit

A company's SME R&D intensive tax credit can be subject to a cap, set at a level of £20,000 plus three times the company's PAYE and NIC liability for the period.

There is an exemption from the cap, which requires a company to meet both of the following conditions:

- Condition A requires the company to be creating or preparing to create intellectual property or managing intellectual property which it holds. These activities must be wholly or mainly undertaken by employees of the company, and the company must have the right (alone or with others) to exploit the intellectual property.
- Condition B requires that the total of the company's qualifying expenditure with connected persons on EPWs and on subcontracting R&D activities is no more than 15 per cent of its qualifying expenditure.

The cap applies to the cash credit only so any excess R&D losses would be carried forward to potentially offset against future profits.

HMRC scrutiny

HMRC are currently checking more than 20% of R&D claims (over 1 in 5 claims), up from less than 1% a few years ago. Any R&D claim made is therefore at high risk of HMRC enquiry. An HMRC enquiry can be both expensive and time consuming, diverting your resources away from where they are really needed within your company.

Our team of specialist advisors

We can help you to prepare a robust claim to reduce the risk of HMRC enquiry.

We recognise how important R&D relief can be for your company, and we are here to help and support you. For further information on R&D relief, please contact one of our specialist advisors using the contact details below:

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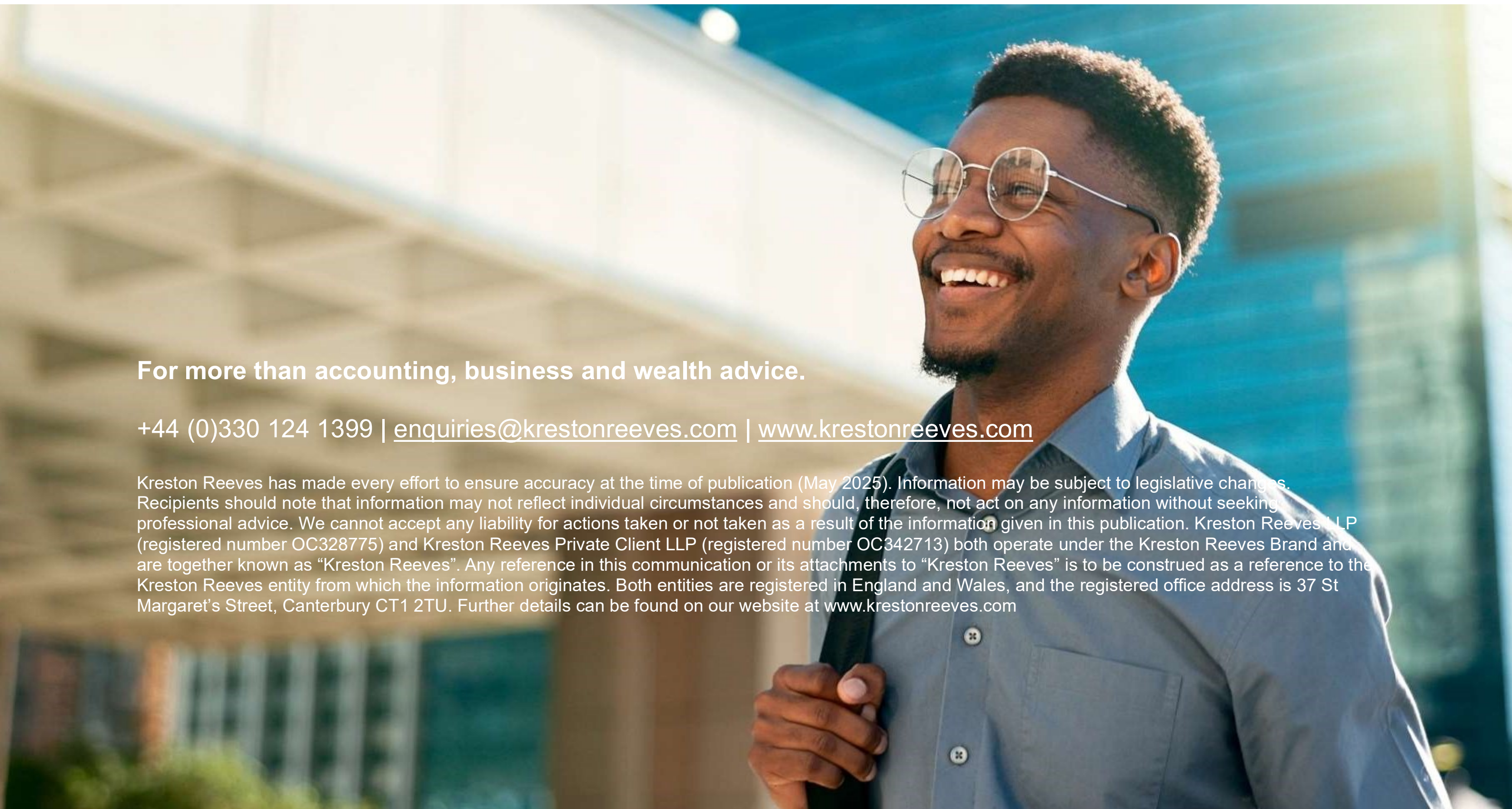

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