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Corporate Intangibles Research and Development Manual

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CIRD201010 - Patent Box: reduced CT rate for profits from patents

The Finance Act 2012 introduced a new Part 8A in the Corporate Tax Act 2010 ('CTA10'). Commonly known as the Patent Box, this new regime allows companies to elect to apply a 10 per cent rate of corporation tax from 1 April 2013 to all profits attributable to qualifying patents and certain other intellectual property rights. The full benefit of the regime was phased in over the first four financial years with the full reduced rate applying from 1 April 2017 (CIRD260170).

A company that is a qualifying company ([CIRD210000 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird210000\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird210000)) can opt to elect into the Patent Box ([CIRD201020 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird201020\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird201020)) under CTA10/s357A(1). If, exceptionally, a company has more than one trade, an election applies to all of them. There is an expectation that the company will include a Patent Box computation within its original or amended CT Tax Computation in that year and all subsequent years, unless the election is revoked.

Where a company makes an election under CTA10/S357A(1), the reduced rate of tax is delivered through an additional deduction in the corporation tax computation ([CIRD201020 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird201020\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird201020)). A company's profits which benefit from the Patent Box are a proportion of the corporation tax profit of the company's trade and are called its 'relevant IP profits'.

Broadly, there are four stages to calculate the relevant IP profits. The 4th stage was introduced by FA16 and now applies to all companies.

1. Identify the profits attributable to income arising from exploiting patented inventions - known as 'relevant IP income' (see [CIRD220150 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220150\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220150) onwards).
2. Remove a routine return - this reflects the fact that a business would be expected to earn a profit on that product even if it had no access to patented technology or intellectual property. (See [CIRD220430 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220430\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220430).)
3. Remove the profit associated with intangible assets, such as brand or other marketing assets - the Patent Box is not designed to reward other

forms of IP. In many cases this figure is nil and in others a simplified small claims treatment can be applied. (See [CIRD220470](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220470) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220470>) onwards.)

4. Apply an R&D fraction to the relevant IP profits in each stream. This ensures that the 'slice' of profits receiving the reduced rate of tax from the Patent Box is in proportion to the underlying substantive development activity by the Patent Box company (See [CIRD274000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird274000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird274000>) onwards

The calculations are explained in further detail using the hyperlinks

- Companies are required to 'track and trace' their R&D expenditure against particular substreams (see [CIRD272000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird272000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird272000>))

An additional step may apply if profits were made previously from inventions awaiting grant of a patent if the patent is awarded in the accounting period - see [CIRD220540](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220540) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220540>) and [CIRD275200](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird275200) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird275200>)

There is an example of a Patent Box calculation at [CIRD277000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird277000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird277000>)

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