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## HMRC internal manual

# Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)  
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## CIRD220470 - Patent Box: relevant IP profits: elections for small claims treatment: entry criteria

### CTA10/s357BN

Companies with qualifying residual profit which meets the criteria described in this section will be able to elect to use the small claims treatment.

There are three separate elections:

- described at [CIRD220480](#)  
(<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220480>) (Marketing Assets Return calculation to be replaced by a 25% reduction),

- described at [CIRD273100](#)  
(<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird273100>) (appropriate percentage of IP derived income to be taken as 75%) and

- described at [CIRD273200](#)  
(<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird273200>) (allowing a global stream)

and an election may be made for any, or all of them as they are not mutually exclusive. The small claims treatment applies only where the company only has one trade.

The small claims elections should be made annually, showing that the criteria still apply, and included as part of each corporation tax computation to which they apply, they do not need to be sent separately. The elections should be tagged under the ixbrl online tagging system.

### Qualifying Residual Profit (QRP)

The qualifying relevant profit ('QRP') is the figure of profit that remains after removal of the routine return. It represents the part of the profits of the trade that relates to exploitation of qualifying IP rights and also to the ability to access other unique IP or intangible assets such as brand or marketing assets.

It can be seen that unless the relevant IP income is also below the threshold for small claims treatment, when it will be evident, it will be necessary to follow the initial streaming instructions in [CIRD275200](#)  
(<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird275200>) first before determining that the

qualifying relevant profit meets the criteria - even if the chosen election is for a global stream.

In order to elect for small claims treatment a company must meet either condition A or condition B.

### Condition A

The QRP of the company does not exceed £1,000,000. In this case, there is no requirement to have made a Small Claims Treatment election in prior years.

### Condition B

- The QRP of the company does not exceed the relevant maximum; and
- In the previous four years the company has not calculated its Patent Box profits without making the relevant small claims election when it qualified to do so. It may be advisable to consider whether a 'protective election' is made if it is likely to be needed in future years.
- The relevant maximum is:

$$3,000,000 / (1+N)$$

Where N is the number of 51% group companies for which a Patent Box election has effect for the relevant accounting period.

The relevant maximum is also proportionately reduced if the accounting period is less than 12 months long.

The relevant maximum for a company with no 51% group companies and no reduction to a 12 month accounting period is therefore £3,000,000, but with a requirement to have made the same Small Claims Treatment election(s) within the previous accounting periods within the previous 4 years ('relevant 4 year period' s357BN(5)).

The reason for this limit in the ability to use small claims treatment is that it is not intended for

companies to switch between making and not making a Small Claims Treatment election.

Where the relevant maximum is exceeded the company cannot elect to use the small claims treatment.

## Companies qualifying for Small Claims Treatment – Summary

- A company with QRP up to £1m can always elect for small claims treatment.
- A company with QRP in excess of £3m can in no circumstances elect for small claims treatment.
- A company with QRP between £1m and £3m (adjusted as above for 51% group companies or shorter accounting periods) can elect for small claims treatment, if it has made a similar previous Small Claims Election (or protective election) and never chosen to compute and deduct a marketing assets return figure; or chosen to apply sub streams or calculated a notional royalty percentage based on transfer pricing principles instead of electing for Small Claims Treatment (as appropriate)

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