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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD240130 - Patent Box: relevant IP losses: set-off amount: order of allocation to other trade or within a group

Allocation of Relevant Losses – order of set off when there are Relevant Profits in a separate trade or with other Group companies:

CTA10/S357E:

Where a company has a relevant IP loss (arising from the calculation at S357BF - [CIRD275200](#))

(<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird275200>) after step 8), s357E provides that the company has a set-off amount which is equivalent to this loss.

CTA10/S357EA: set off against another Patent Box trade

Where a company has a set-off amount in relation to a trade for an accounting period and the company has another Patent Box trade with relevant IP profits ([CIRD220000](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220000) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220000>)), then the set-off amount must be reduced (but not to below nil) by the Relevant Profit of that other trade for the same accounting period.

The Relevant Profit that has been used to reduce the set-off amount is then not included in the remaining amount of Relevant Profit that is available to calculate the Patent Box deduction.

CTA10/S357EB: set off against another group company with Patent Box Relevant Profits

If there is a set-off amount in relation to a trade of a company for an accounting period, the company is a member of a group, and the amount has not been reduced to nil by the set-off against any relevant IP profits of another Patent Box trade, the remaining set-off amount is to be reduced (but not to below nil) by any Relevant Profit of a trade of a relevant group member for the relevant accounting period.

‘Relevant group member’ means another member of the group ([CIRD260140](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird260140) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird260140>)) that has elected into the Patent Box scheme and is a qualifying company for the relevant accounting period.

‘Relevant accounting period’ means an accounting period of a company that has a set-off amount where it ends at the same time as or is within an accounting period of the relevant group member.

Any Relevant Profit of another relevant group member used to reduce the set-off amount is no longer available to be included in calculating that relevant group member’s Patent Box deduction for that accounting period.

Where there is more than one relevant group member, the relevant group members may jointly determine the order in which the set-off is to be made.

If no determination is made, the set-off amount is to be applied first to the trade that has the greatest amount of Relevant Profit of any trade of any of the relevant group members for a relevant accounting period, then to the trade that has the second greatest amount of Relevant Profit of any of those trades for such a period, and so on until either all of the set-off amount has been allocated or there is no Relevant Profit remaining against which to allocate the remainder.

Tax free payments can be made between group companies to compensate for the Relevant Profit being reduced by set-off amounts of other group companies ([CIRD240170 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird240170\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird240170)).

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