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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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CIRD220460 - Patent Box: relevant IP profits: routine return figure: example

A company develops and manufactures patented electronic products. It has 50 staff, of which 5 are dedicated R&D staff. During the year the company incurred legal costs on defending its patent. Its parent company recharges IT costs.

Set out below is a list of the company's expenses:

Expenses	Routine deductions?
Audit fees	Yes
Bank overdraft interest	No
Charitable donations	No
Client entertaining	No
Companies House fees	No
Contractors	Contractors will not have to be marked up provided they are provided through a service provider who supervises and takes responsibility for their activities. Nor will they have to be marked up if they are self-employed workers operating on their own account and not under the terms of a contract between the contractor and a staff provider.
Credit check charges	The cost of obtaining credit rating reports represents the purchase of a financial service falling within Head 5 and will therefore need to be marked up.
Depreciation	No
Exchange losses	No
Group recharges	Group recharges will need to be marked up if the amounts are incurred on behalf of the claimant and they relate to expenses that would have been marked up if incurred by the company directly.

Expenses	Routine deductions?
Human resources	Yes
Legal fees	Provided that the legal fees relate to the defence of qualifying IP rights they will not be routine deductions.
Marketing costs	If there is no element of consultancy they will not need to be marked up.
Mortgage interest	No
National insurance	Yes
Raw materials	No
R&D costs	Provided that the R&D costs qualify for the R&D additional deduction (CIRD220400) they will not need to be marked up. The additional amount for which a CT deduction is given will also not be marked up.
Rent and rates	Yes
Repairs	Yes
Safety supplies	Yes
Salaries and pensions	Yes, pension contributions relating to both existing and past employees are routine deductions.
Scrap	No

Expenses	Routine deductions?
Security guards	If the security guards are employees of the company they will need to be marked up. Otherwise, the same considerations that are relevant to contractors will apply.
Staff entertaining	Yes
Exceptional item	Exceptional items will be marked up if they fall into one of the heads in S357BJA and are not excluded under S357BJB. It would be necessary to establish what the expense relates to.
Subscriptions	No
Water, light & fuel	Yes
VAT penalties	No

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