

Beta This part of GOV.UK is being rebuilt – [find out what beta means \(/help/beta\)](#)

HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
([/government/organisations/hm-revenue-customs](#))

Published 11 March 2016

Updated: 10 September 2025 - [See all updates](#)

[Back to contents](#) > [CIRD200000](#) > [CIRD270000](#) > [CIRD274000](#)

CIRD274500 - Patent Box: terms of the fraction: Acquisition of relevant qualifying IP rights CTA10/s357BLE

Patent Box: terms of the fraction: Acquisition of relevant qualifying IP rights CTA10/s357BLE

S357BLE CTA10

‘A’ represents the company’s qualifying expenditure on the acquisition of relevant qualifying IP rights – that is the cost of acquiring

the IP right or an exclusive licence in respect of the IP right.

The following kinds of payment will fall into this category:

- Payment in respect of an assignment of a relevant qualifying IP right
- Payment in respect of a grant or transfer of an exclusive licence in respect of a relevant qualifying right
- Payment made in respect of disclosure of any item or process, and in respect of which the company subsequently applies for and is granted a relevant qualifying IP right in respect of that item or process (or any item or process derived from it).
- Royalties made as part of the terms and conditions of the exclusive licence are to be included within 'A' on a cumulative basis because 'A' is intended to act as a proxy to reflect the R&D input of the transferor.

For example, annual (or other) fees of an exclusive licence made in respect of exploiting a qualifying IP right will be treated as acquisition costs and so cumulatively increase term 'A' and could reduce the fraction, unless on-going R&D falling within terms 'D' or 'S1' (in house or unconnected subcontracting R&D expenditure) continues to be undertaken incurring expenditure which will increase the numerator.

When IP is acquired and the cost relates to a wider value than the qualifying IP right, then the cost should be apportioned on a just and reasonable basis as only the cost relating to the qualifying IP right should be included. However, when IP is acquired as part of a transfer of trade (or part of a trade) the R&D fraction is inherited from the vendor instead of identifying a separate acquisition cost relating to the qualifying IP right. More details are provided at [CIRD240160](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird240160) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird240160>)

Where the company has incurred expenditure in making a series of payments to a person in respect of a single assignment, grant, transfer or disclosure, subsequent stage payments are included within the fraction in the year that they are incurred. However, when considering whether these payments should be included in relevant expenditure or 'drop out' of the sub-stream (such as when the patent right expires or after 20 years, whichever is the shorter), each payment is to be treated as having been made on the date the first payment in the series was made. Income related payments are those which an obligation to make the payment arises under an arrangement linked to the amount of income the company has accrued which is properly attributable to the right or licence, or where the amount of the payment is determined by reference to the amount of income the company has accrued – for example the payment is a percentage of related sales of a product containing a qualifying IP right. In these cases, the relevant amount needs to be included in term 'A' and will make the fraction less each year, but there is an adjustment to be made within the streaming calculation to avoid a 'double hit' of a reduced fraction and increased expenditure costs effectively linked to the success of the qualifying IP right. [CIRD274200](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird274200) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird274200>) explains how the adjustment should be incorporated into the streaming calculation.

The commencement of tracking and tracing acquisition payments will generally be from 1 July 2016 for all companies, unless they have made an election to track and trace their R&D expenditure from an earlier date.

If a company acquired patents and/or has exclusive licence agreements prior to the start date of their tracking and tracing and is making payments relating to the original agreement via a series of payments then provided that the agreements have not been changed these later payments need not be included in the tracking and

tracing either as the first payment was made before the relevant period for tracking and tracing commenced. These reason that these payments will not be included under 'A' in the R&D Fraction is because they are a 'series of payments' as defined in s357BLE(5).

Example 1

Company A acquired a patented locking system to develop for a particular product for which they paid £X on 1/12/2015. This was before any tracking and tracing commenced, but sales from the product continue and are included in a Patent Box income stream. This amount does not feature in the R&D Fraction as an acquisition cost because it is before tracking and tracing commenced on 1/7/2016. However, the acquisition cost £Y for any other patent that is subsequently acquired for that same product after 1/7/2016 would be included in 'A' for that income stream as it cannot be connected as a 'series of payments' because it was not part of the original acquisition agreement.

Example 2

Company B granted a licence to Company C to develop a patented machine on 16/12/2011. Company C does not include annual payments to Company B relating to the licence fee under 'A' in its R&D fraction as they form a series of payments. Company B then licences a second patent relating to a motor to company C on 04/10/2017 which is after 01/07/2016. For commercial ease the second patent is added to the existing agreement with other terms of the licence remaining unchanged. Amounts relating to IP for the machine continue not to be included under 'A' in the R&D Fraction. On a just and reasonable basis amounts relating to the motor are included under 'A' in the R&D Fraction as this is after tracking and tracing commenced.

Example 3

Company D grants a licence to Company E to exploit a patented formulation on 18/4/2013 which

is before tracking and tracing commenced on 01/07/2016 with the terms and conditions stating that Company E pays company D a royalty of 5% of any sales. The companies agree to increase the royalty from 5% to 6% from 2020, which is after the tracking and tracing commencement date of 01/07/2016 and for commercial ease the additional 1% is included in the same agreement. The additional 1% must be included under 'A' in the R&D Fraction even though the 5% is not included under 'A' in the R&D Fraction because it is not a part of the original series of payments. Exceptionally, a just and reasonable proportioning of the increase may be permissible.

CIRD274600 provides further information about acquisition costs from related parties and the interaction with Part 8 Intangibles.

← **Previous page**

(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird274400)

→ **Next page**

(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird274600)



OGL

All content is available under the [Open Government Licence v3.0](#), except where otherwise stated



© Crown copyright