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HMRC internal manual

Corporate Intangibles Research and Development Manual

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

CIRD272100 - Patent Box: nature of records to keep for tracking and tracing

Where R&D expenditure is included within a number of different R&D fractions, companies should be able to demonstrate how the R&D expenditure has been tracked to each fraction. It should not be necessary to justify the methodology every year unless a significant change occurs.

The extent of records required to ensure accurate tracking and tracing of R&D expenditure will vary between companies depending upon the extent of the R&D they undertake and the amount of IP that

they hold. It is ultimately up to the company to decide upon a pragmatic solution to allow it to accurately calculate its patent box deduction and complete its corporation tax return under the principles of self-assessment. However, some general principles may be considered.

Companies making R&D tax credit claims are likely to be familiar with extracting R&D expenditure from their underlying accounting systems. A reconciliation between such expenditure and R&D expenditure deducted in the accounts under GAAP may be helpful to prepare as a check to identify whether there is any R&D expenditure in the Accounts which has not been included in an R&D tax credit claim.

It would be expected that companies could demonstrate the methodology by which R&D expenditure is allocated to individual sub-streams, at least in the first such period of calculation, and detail any significant adjustments to their methodology arising in subsequent years.

← **Previous page**

(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird272000)

→ **Next page**

(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird272200)



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