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## HMRC internal manual

# Corporate Intangibles Research and Development Manual

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## CIRD276300 - Patent Box: CSA: identifying S1 and S2 in complex CSAs - a series of steps

This section sets out a series of steps to calculate the additional terms for S1 and S2 in the R&D fraction required in a more complex CSA. It is not a substitute for the instructions in [CIRD276050](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird276050>) which sets out the rules that apply and companies will always need to consider how those rules apply to their own circumstances.

This is a practical guide showing how to apply the rules. Not all steps will be needed in every case.

The outcome should be to identify the net payments for connected and unconnected R&D expenditure made by the Patent Box company.

This section assumes there is a CSA and the company is a member of it. It should be applied to payments relating to all the qualifying IP rights within a particular sub stream. The CSA may of course apply to more than one sub-stream. Where this is the case it would be necessary to carry out the steps separately for each sub-stream even if the structure of the calculation (such as the way the R&D is done and rights are shared) is the same. This is because the composition of the fraction may still differ numerically between sub-streams (for example it may be necessary to acquire qualifying IP rights for one sub-stream, but not another).

Repeat the following steps for each relevant IP income sub-stream.

**Step 1 :** This step considers payments made to other parties of the CSA for R&D expenditure, in order to collate amounts relevant to the S1 and S2 components of the R&D fraction. It should be repeated for each party to the CSA to which the Patent Box company has made payments relevant to the step.

**Step 1a :** Does the other party to the CSA undertake R&D directly on the relevant IP income sub-stream?

If YES go to Step 1b. If NO go to Step 1e.

**Step 1b :** Is the company connected with the other party?

If YES go to Step 1d. If NO go to step 1c

**Step 1c:** The amount of any payments made to the other party for its own direct R&D on the relevant

IP income sub-stream is treated as S1 for the company. Go to step 1e.

Step 1d : The amount of any payments made to the other party for its own direct R&D on the relevant IP income sub-stream is treated as S2 for the company. Go to step 1e

Step 1e : If there are any other parties in the CSA then repeat step 1 for the next party. Otherwise go to Step 2.

Step 2 : Before considering this step any other companies in the CSA companies which act as a 'pass through' intermediary for a payment should be identified and this activity discounted, considering instead only the first payee in the transaction chain which is not a 'pass through' intermediary. This step then considers payments made for R&D which another member of the CSA has contracted out. The payment may be made either to the other member of the CSA or to the subcontractor). This collates further amounts of S1 and S2 for the R&D fraction. It should be repeated for each party to the CSA in respect of which the Patent Box company has made payments relevant to the step.

Step 2a : Does the other party to the CSA contract R&D on the relevant IP income sub-stream to a third person, either within or outside of the CSA?

If YES go to Step 2b. If NO go to Step 2f.

Step 2b: Does the company make any payment, under the CSA, for the cost of that R&D (not considering any other R&D going on)?

If YES go to step 2c. If NO go to step 2f.

Step 2c : Is the company connected with the other party?

If YES go to step 2e. If NO go to step 2d.

Step 2d: The amount of any payments made for the R&D on the relevant IP income sub-stream is

treated as S1 for the company. Go to step 2f.

Step 2e :The amount of any payments made for the R&D on the relevant IP income sub-stream is treated as S2 for the company. Go to step 2f.

Step 2f : If there are any other parties in the CSA in respect of which such a payment has been made then repeat step 2 for the next party. Otherwise go to Step 3.

Step 3 : This step considers payments made to other parties of the CSA in respect of qualifying IP rights, in order to collate amounts relevant to the A component of the R&D fraction. It should be repeated for each party to the CSA to which the Patent Box company has made such payment.

Step 3a :Has any other party to the CSA been assigned a relevant qualifying IP right or an exclusive licence to such a right, by a third person?

If YES, go to step 3b. If NO go to Step 3d

Step 3b: Has the company made any payments in respect of that assignment?

If YES go to step 3c. If NO go to Step 3d.

Step 3c : The amount of the payment is treated as A for the company. Go to step 3d.

Step 3d: If there are any other parties in the CSA to which such rights have been assigned then repeat step 3 for the next party. Otherwise go to Step 4.

Step 4 : This step collates the previous steps for S1 and reduces that total by any payments received from unconnected CSA parties (under CTA10/s357GCZC) for R&D.

Add together all the amounts identified at steps 1c and 2d. If the total is zero go to Step 5.

If the total is greater than zero, subtract the amount of any payments received by the company under the CSA from unconnected persons for doing or contracting out R&D. If the result is greater than zero, add it to the company's S1 component in the R&D fraction.

Go to step 5

Step 5 : This step collates the previous steps for S2 and reduces that total by any payments received from connected CSA parties (under CTA10/s357GCZC) for R&D.

Add together all the amounts identified at steps 1d, 2e and 3c. If the total is zero go to Step 6.

If the total is greater than zero, subtract from the amount of any payments received by the company under the CSA

- from connected persons for doing or contracting out R&D, or
- in respect of the assignment to the company of a relevant qualifying IP right or an exclusive licence to such a right

If the result is greater than zero, add it to the company's S2 component in the R&D fraction.

Go to step 6.

Step 6: If there are any more parties in the CSA repeat for those from step 1

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