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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: **HM Revenue & Customs (/government/organisations/hm-revenue-customs)**

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CIRD272200 - Patent Box: when to start tracking and tracing R&D expenditure CTA10/s357BLF

The date from which R&D expenditure and acquisition costs should be tracked and traced will depend upon the facts, and there are a number of different situations. All companies must use data from tracking and tracing relevant R&D expenditure and acquisitions in their Patent Box calculations.

The ‘relevant period’ in which they should track and trace relevant R&D expenditure and acquisitions ends with the last day of the accounting period and begins on the relevant day described below, or an earlier day if the company elects to do so.

1. Tracking and tracing R&D expenditure and acquisition costs from 1 July 2016:

All companies should track and trace R&D expenditure and acquisition costs underlying the relevant IP income included in the Patent Box calculation from 1 July 2016.

2. Electing to use a date prior to 1 July 2016:

Alternatively, R&D expenditure may have occurred prior to these dates, in which case, in order to achieve an accurate R&D fraction, the company may elect to include earlier R&D expenditure for any particular IP asset as long as they elect to do this within the Patent Box calculation. The earliest date that can be included is 20 years before the last day of the accounting period. Once an election has been made that start date should be used for all R&D and acquisition costs, across all sub streams.

Companies which tracked and traced their R&D expenditure and acquisition costs from 1 July 2013 as part of the original rules may elect to continue to use that date, or alternatively may recalculate from 1 July 2016.

3. Licences and similar agreements where terms and conditions commence from before the start of tracking and tracing:

CIRD274500 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird274500) provides guidance on the circumstances where payments such as fees and royalties may be excluded from being an acquisition cost if the existing terms and conditions have been agreed prior to the start date for tracking and tracing and remain unchanged.

When to stop tracking and tracing

Patents have limited lives. When a qualifying IP right falls out of patent protection within an accounting period the related expenditure will also fall out of the fraction.

If a qualifying IP right has been acquired through a series of instalments or stage payments, all of these payments may be excluded from the fraction from the year that the patent expires as income from that patent will no longer be included in the Patent Box.

← **Previous page (/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird272100)**

→ **Next page (/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird273100)**