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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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Published 11 March 2016

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

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CIRD220200 - Patent Box: relevant IP profits: relevant IP income: head 2: licence fees and royalties

CTA10/S357BH(6)

Head 2 consists of receipts which must derive from an agreement that grants any of the rights set out below but only these rights. An agreement that also grants other rights is a ‘mixed agreement’ to which S357BHC will apply ([CIRD220290](#)
<https://www.gov.uk/hmrc-internal-manuals/corporate->

[intangibles-research-and-development-manual/cird220290](#))).

The rights giving rise to head 2 income are:

1. A right in respect of any qualifying IP right held by the company.
2. A right in respect of a qualifying item or process.
3. A right granted for the same purpose as a right granted within a. or b., under a single arrangement.

Generally these will be licence fees or royalties received. They can also be fees received from an option agreement relating to qualifying IP rights.

This head covers the situations described below:

1. A company has UK and EPO patents and a number of other patents worldwide over an invention. It grants licences in respect of these rights (exclusively or non-exclusively) to one or more other companies. Only the UK, EPO or certain other patents will be qualifying rights, but provided that the other rights are in respect of the same item or process as specified in the qualifying patent or patents, income from these other rights will also be relevant IP income
2. A company holds patents in both the UK and overseas in respect of a particular item. It licenses a subsidiary resident in the overseas territory to exploit the overseas patent by manufacturing and selling the item only in that overseas territory. Even though the right granted is in respect of a non-qualifying patent the royalties would still be relevant IP income under head 2 because the items sold by the subsidiary are qualifying items.
3. A qualifying process is a process in respect of which a company holds a qualifying IP right. If a company receives royalties for a qualifying process the royalties will fall under head 2.
4. Sometimes an agreement may grant rights to exploit a patent and also other rights held by the company. Royalties also fall under head 2 if

these other rights are related to the patent rights and if the purpose of granting them was the same as for the rights over the qualifying IP. Where multiple rights have been granted which are needed to produce a single product those rights will normally have been granted for the same purpose. For example, where a company is given the right to use both the patent and a product trademark under a single agreement then all the rights are likely to have been granted for a single purpose. Where the rights are not related then it will be necessary to apply the mixed income rules ([CIRD220290](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220290) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220290>)).

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