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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD201020 - Patent Box: reduced CT rate for profits from patents: patent box election CTA10/S357A

From 1 April 2013 companies may elect into the Patent Box regime. The Patent Box allows qualifying companies ([CIRD210000](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird210000>)) to be taxed at a reduced rate on the profits from exploiting patents and other

specified intellectual property. Their other profits are taxed at their applicable rate of corporation tax.

The calculation to blend the Patent Box reduced rate and the applicable rate of corporation tax requires an additional deduction ('the Patent Box deduction') from the profits of the trade for corporation tax purposes for each of the accounting periods it is a qualifying company. CTA10/s357(3) provides the calculation:

For Accounting Periods commencing before 1 April 2023 the calculation for the Patent Box deduction is -

$$RP \times (MR - IPR) / MR$$

Where -

RP is the Relevant Intellectual Property Profits ([CIRD220000 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220000\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220000))

MR is the main rate of corporation tax ([/manual/company-taxation-manual/ctm01750 \(https://www.gov.uk/hmrc-internal-manuals/company-taxation-manual/ctm01750\)](https://www.gov.uk/hmrc-internal-manuals/company-taxation-manual/ctm01750)), and

IPR is the 10% Intellectual Property Rate of corporation tax.

For Accounting Periods commencing on or after 1 April 2023 this calculation is amended to $RP \times (AR - IPR) / AR$

where RP and IPR remain as defined above and AR is defined as 'Applicable Rate' which is:

(a) in a case where corporation tax is charged at the standard small profits rate on the company's taxable total profits of the accounting period which are not ring fence profits, that rate, or (b) in any other case, the main rate of corporation tax.

The profit figure to which the Applicable Rate applies is the amount of profit prior to the Patent Box deduction.

For accounting periods which straddle 1 April 2023 there is no requirement to calculate separate notional Patent Box calculations as the rates apply to the profits apportioned between the Financial Years FY23 and FY24.

Example

If a company has corporation tax trade profits in an accounting period commencing on 1 April 2023 of £40,000 and £10,000 of these qualify for the Patent Box, then the tax 'saving' from the Patent Box will be the difference between £10,000 x 19% and £10,000 x 10% which is £900. The 'Applicable Rate' for £40,000 is small profits rate of corporation tax.

The calculation for CT600 purposes will be as follows:

Patent Box deduction $\text{£}10,000 \times ((19-10)/19) = \text{£}4,737$

Profits chargeable to corporation tax after Patent Box deduction = $\text{£}40,000 - \text{£}4,737 = \text{£}35,262$

Tax payable $\text{£}35,262 \times 19\% = \text{£}6,699.78$

Tax payable at 19% on £40,000 = £7,600, so a Patent Box benefit of £901. There will occasionally be minor differences such as this, especially where marginal rate is applied to the 'non Patent Box' profits due to the automated computation.

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