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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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## CIRD276100 - Patent Box: CSA interaction of 'pass through' costs and subcontracting R&D by a member of a cost sharing arrangement (CSA)

Interaction of 'pass through' costs and subcontracting R&D by a CSA member

See examples 6 and 7 in [CIRD276200](#)  
(<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird276200>)

As described in [CIRD276050](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird276050) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird276050>), CTA10/S357GCZC(3) and (4) apply when a company incurs expenditure, through a company which is a party to the CSA, with another party outside of the CSA, with the effect that it is treated as having subcontracted to the company within the CSA.

For example, when CTA10/s357GCZC applies, expenditure via a connected party in the CSA with an unconnected third party is treated as a subcontract payment to the connected party. However if there is a genuine 'pass through' scenario (eg when the intermediary added no value) this would remove the intermediary company from the series of transactions.

So in a genuine 'pass through' situation the company itself, not the other person in the CSA, as a matter of substance, contracts with the unconnected third party. The expenditure is then simply part of the company's normal R&D expenditure for the purposes of CTA10/S357BLA – S357BLH. The principles of 'pass through' costs which apply generally and are described at point 3 in [CIRD274400](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird274400) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird274400>) also therefore apply in the case of CSAs when applying CTA10/s357GCZC.

The consideration of 'pass through' costs determines to whom a payment for subcontracted R&D expenditure has been made. Whether it should be classed as a payment to a connected or unconnected person for the purposes of the R&D fraction depends upon the relationship with the payee after excluding any intermediary. There can be more than one intermediary in complex situations.

Where a 'pass through' arrangement does exist in the CSA, then there is no need to consider the intermediary company's position within that arrangement.

For example, in a CSA a company makes a payment to another party to the CSA (called P) for R&D activities carried out by a third party (called A) , and before considering the application of CTA10/s357GCZC it should first be decided whether P is acting as a 'pass through' intermediary for all or any of the expenditure and identify any expenditure that is, on the facts, a 'pass through' cost. It is a question of fact whether in substance the company itself contracts out the work to A with P merely acting as an intermediary, 'passing through' the payments to the ultimate payee, or whether P actually contracts out all or some of the work.

If 'pass through' arrangements do not apply, R&D expenditure is treated as having been contracted out to P, with P either doing the R&D itself, or further contracting out the R&D, but taking control of the part of the project to which that payment relates.

If the project is owned or controlled by P in relation to that R&D for which payment is made, that payment is then a connected (S2) or unconnected (S1) payment depending on the company's relationship to P. This is whether or not the payment is actually made to P or directly to A.

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