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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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CIRD220440 - Patent Box: relevant IP profits: routine return figure: routine deductions

CTA10/S357BJA

‘Routine deductions’ means expenditure falling within any of the six heads below provided that they are not subsequently determined as not routine deductions ([CIRD220450](#) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220450>)). An amount can be a routine

deduction only if it is taken into account as a deduction in computing the company's trade profits for the purposes of corporation tax.

HMRC would expect it normally to be clear whether an amount is, or is not, a routine deduction. Where there is doubt as to whether an expense is a routine one, HMRC would have regard to materiality of the sum in terms of its overall effect on the Patent Box claim in deciding the best way of allocating the amount.

A routine deduction includes any exceptional item falling into any of the Heads below.

Head 1 - Capital allowances

Capital allowances under CAA01 (other than those under CAA01/Part 6 or Part 8). This will be the amount of any such allowances deducted from trading income in arriving at the taxable profits of the trade, since only such amounts will have been brought into account in calculating the profits of the trade.

Head 2 - Premises costs

All deductible expenses incurred in respect of land and premises which the company occupies. This will include rent, rates, repair and maintenance.

It will not include mortgage interest as loan relationship debits are excluded under section 357BJB ([CIRD220450 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220450\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220450)).

Head 3 - Personnel costs

This includes any expenditure incurred by the company in respect of directors or employees. Class 1 and Class 1A National Insurance Contribution costs payable by employers are included in personnel costs, as are share scheme

and pension deductions. It also includes amounts paid in respect of externally provided workers ('EPW') supplied to the company as defined by CTA09/S1128.

The definition of EPWs excludes any services provided by workers in the course of activities contracted out by the company ([CIRD84100 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird84100\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird84100)). So where a company contracts out a particular function to a service provider who supervises and takes responsibility for that function then the costs are unlikely to be personnel costs.

Pension contributions that need to be marked up may relate to both past and present employees of the company.

As set out in [CIRD84100 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird84100\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird84100), a payment to a self-employed consultant will not be a payment for an EPW because there will be no contractual arrangement between the consultant and staff provider as required in CTA09/S1128. However, such payments may come under heads 5 or 6 below.

Head 4 - Plant and machinery costs

This includes any deductible costs associated with plant and machinery owned or leased by the company (for example, costs of leasing, constructing, modifying, maintaining, servicing, operating, etc).

Head 5 - Professional services

This includes legal services (but not IP-related legal services), financial services including accounting, audit, actuarial and valuation functions and costs associated with the administration and management of the company.

It also includes any other consultancy services. Consultancy expenses do not include Clinical Research Organisation ('CRO') costs, as these organisations are engaged to undertake research rather than for consultancy purposes. This would be the case even if the company provided incidental consultancy as part of the research service.

'IP-related services' means services relating to a patent application (or the application for other rights to which CTA10/Part 8A applies) and proceedings related to the enforcement of those rights. This means that legal fees associated with the defence of patent rights will not need to be marked up.

Head 6 - Miscellaneous services

This includes computer software and other computing costs; supply of water, fuel and power; telecommunications services; postal services; transportation of any items; waste disposal services.

'Transportation costs' need to be marked up even if the transportation service is included in the cost of goods and not separately itemised. The amount attributable to transportation would need to be determined on a reasonable basis.

'Telecommunications services' mean provision or access to a telecommunications system. This system is anything that facilitates the transmission of communications by electrical or electro-magnetic energy.

Exceptional items

Routine expenses may include exceptional items that significantly affect the amount of profit that qualifies for the beneficial CT rate. There is no special rule for such expenses. This may be to the benefit of the company if the expense falls in a period for which no election into the regime has

been made, or to its disadvantage if the expense has to be marked up in a period for which an election is in force.

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