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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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CIRD220430 - Patent Box: relevant IP profits: routine return figure

CTA10/S357BJ

The routine return represents the profit a business might have made if it did not have access to unique IP and other intangible assets.

This routine return element must be deducted from the profit attributed to RIPI to arrive at the amount of that profit that is attributable to the intellectual property (both patent-related IP and other IP, such as marketing assets).

A formulaic cost plus methodology is a recognised way to determine an arm's length return that might be expected from a trader without access to unique IP. The Patent Box adopts a 10% return on certain specified costs as a representative routine return which it is reasonable to apply in respect of businesses across all sectors.

This is achieved using a three step computation:

1. Identify the routine deductions ([CIRD220440](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220440) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220440>)) in the expenditure allocated to the relevant IP income sub streams.
2. Multiply each deduction by 0.1 (10%) and add together to obtain a total 'routine return' for each sub stream.
3. Deduct the routine return from each sub stream (CIRD220110). The routine return figure deducted from the relevant IP profits calculation is Step 4 of the Streaming calculation in [CIRD275200](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird275200) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird275200>).

Groups: companies incurring expenses on behalf of a Patent Box company

S357BJ(2) and (3) set out that if another group company incurs expenses on behalf of the company ('C'); and had C incurred them they would have been included in the routine return calculation, then they must still be so included.

Where the group company incurs expenses on behalf of a number of companies it allows for just and reasonable apportionment where that is appropriate.

Example

A number of group companies share premises, the costs of which are met by one member of the group. The Patent Box company should make a

reasonable apportionment of the costs incurred, for example, based on floor space occupied, and include those costs in their routine return calculation.

The aim of this rule is to ensure that the mark up for routine costs cannot be avoided by having a subsidiary company meet expenses on the Patent Box company's behalf and then simply bills the company an undifferentiated intra-group recharge.

The rule will not apply where, in connection with a trade it is carrying on, another company performs a function for the Patent Box company for which it charges an arm's length price that reflects the fact that it has taken on the risks and rewards of that function.

Where an existing intra-group arrangement is in place prior to the Patent Box regime, HMRC would only expect to apply this rule in cases where it is clearly the case that the group recharge reflects no substantive trading service performed by the group company.

Cases where intra-group arrangements appear to have changed in connection with Patent Box claims may be scrutinised more closely with a view to establishing whether a purpose of the arrangements was to avoid the mark up. See [CIRD250130 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird250130\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird250130) - tax advantage schemes.

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