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## HMRC internal manual

# Corporate Intangibles Research and Development Manual

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## CIRD220290 - Patent Box: relevant IP profits: relevant IP income: mixed sources of income

### CTA10/S357BHC

The mixed sources of income section deals with the following situations:

- items which would give rise to relevant IP income are sold together with other items as part of a single unit and/or for a single price; or

- a single agreement is made which covers the sale of items or the grant of rights some of which would give rise to relevant IP income and some of which would give rise to other income.

Income arising in these circumstances is designated as either mixed income or income paid under a mixed agreement. Such income should be apportioned between qualifying and non qualifying elements on a just and reasonable basis.

Where any non-qualifying elements of such income comprise only a trivial proportion of it, then the whole of the income is to be regarded as relevant IP income, so no apportionment will be necessary. Although trivial is not defined, figures in excess of 5% are unlikely to be trivial and figures below 5% will in most circumstances be likely to be trivial.

### **Example 1**

A company manufactures and sells a home entertainment system. The system comes with a stand, a TV, blu-ray player and surround sound system. The company holds a number of qualifying patents with respect to the TV but the other items are not protected by qualifying IP rights. The sales proceeds should be apportioned between relevant IP income and non-qualifying income on a just and reasonable basis.

### **Example 2**

A UK manufacturer sells a bundled package to its customers incorporating the sale of qualifying patented products and after care servicing. The element of the income that derives from the sale of the patented products is relevant IP income but the after care servicing does not. A just and reasonable apportionment is required.

### **Example 3**

A company sells flat pack DIY conservatories for installation as a single unit and for a single price. The sales price does not differentiate between the conservatory price and the installation. The packages contain a door hinge for which the company has a valid IPO patent.

The conservatory is a single item that incorporates a qualifying item and so qualifies under S357BH(1)(a). The installation service does not produce qualifying income. Under the mixed income rules it would be necessary to make a just and reasonable apportionment of the total sales price between the qualifying elements and the non-qualifying installation service.

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