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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: **HM Revenue & Customs (/government/organisations/hm-revenue-customs)**

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CIRD220100 - Patent Box: relevant IP profits: overview

Normally, there are four stages to calculate the profit to which the Patent Box tax rate applies - the 'relevant IP profit'. These are broken down in the legislation into several sub steps, not all of which are applicable for every company. See CIRD275200 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird275200) for the calculation and CIRD275000 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird275000) for a flowchart of detailed steps.

An additional step (step 8) may apply if profits were made previously from inventions awaiting grant of a patent if the patent is awarded in the accounting period - see CIRD220540 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220540).

First stage : identify the relevant income and expenditure relating to qualifying IP rights. All companies now follow the same steps set out in CTA10/s357BF (steps 1 - 3)

- all income is streamed and in general the IP stream needs to be divided further between substreams corresponding to qualifying IP rights, products or product families .CIRD271500 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird271500) with examples at CIRD275300
- expenditure is assigned to those streams on a just and reasonable basis and deducted from that income.

Second stage (step 4): This is the removal of a 'routine return' (CIRD220430 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220430)) of 10% of certain costs described at step 4 in the legislation, as profits relating to 'routine' costs of manufacturing the product do not attract the preferential rate of tax. The profits following this stage are the 'qualifying residual profit'(QRP).

Third stage: (steps 5 in s357BF) remove a marketing assets return (CIRD220490 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220490)) from the QRP, which reflects profits relating to marketing or branding (where applicable), which also do not attract the preferential rate of tax. The profits following this stage are the ‘relevant IP profits’.

Fourth stage (step 6): An R&D Fraction is calculated for each sub-stream using R&D and IP acquisition expenditure data (from ‘tracking and tracing’ underlying expenditure). This is applied to the relevant IP profits to reflect the underlying substantive activity of the company claiming Patent Box relief so that the same proportion of profits receives the preferential CT rate. CIRD274100 (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird274100)

The relevant IP substreams are added to obtain a total relevant IP profit (step 7). A formula enables that profit to attract the preferential rate of corporation tax automatically through the CT600 return.

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