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HMRC internal manual

Corporate Intangibles Research and Development Manual

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CIRD220305 - Patent Box: relevant IP profits: relevant IP income: method and process patents

A patent that contains a product claim and a claim to a method (or process) of using that product will be protecting a new product. In this instance income arising from the sale of the product would fall under Head 1 income (S357BH(2)). But if a patent only includes a claim protecting a particular use of a product (that is, a method claim, or process patent claim), income arising from the sale of the product would not fall under Head 1

income because the qualifying IP right is not in respect of the product. Instead the company will need to use the notional royalty provisions (S357BHA, [CIRD220250 \(https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220250\)](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220250)). Where the company also sells the product for a different use that is not covered by a patent, the income derived from that unpatented use will not be relevant IP income or a percentage of IP-derived income.

Example

Company X holds a patent over the method of applying a lifting device to lifting pieces of antique furniture safely. It sells the lifting device for the purposes of lifting furniture and also for the purposes of lifting cars.

If the company does not hold a patent over the lifting device itself it must use the notional royalty provisions to include an appropriate percentage of its IP-derived income from sales of the lifting device for lifting furniture (but not for cars).

However if the patent covered both the method of lifting and the lifting device itself, all the related income would fall within Head 1.

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