A brief guide to the Patent Box

The Patent Box regime applies a 10% corporation tax rate to profits derived from patents. The regime is designed to provide an incentive to companies in the UK to develop new patented products.

Due to an EU ruling this opportunity will only be available until 2021 and the current more generous benefits from the regime will only be available to companies that opt into the scheme by 30 June 2016.

Any companies that join the regime after that date will be subject to changes made to the regime. The key change is that in order to avail themselves of the regime after this date companies will need to show that the R&D took place in the UK and will no longer be able to purchase or develop R&D outside the country. Related party outsourcing of R&D or acquisition costs could potentially reduce patent box benefits under the new regime. Companies will therefore need to keep detailed supporting records on their R&D expenditure in order to best support their claims.

Eligibility for patent box
A company can elect to use the patent box regime if it owns or has an exclusive licence, which is at least countrywide to cover UK patents or some European patents. The relief is available for worldwide profits, generated from the patent, not just UK profits. If there are a number of years between the application for a patent and it's granting, relief can be obtained for eligible profits in the period of grant for up to 6 years prior to the grant.

Rate of tax
Tax relief is given through the company's corporation tax computation and effectively reduces the rate of tax on Patent Box profits down to 10%. The relief is phased in over a five year period, as follows:

Financial year	Profits included
2013	60%
2014	70%
2015	80%
2016	90%

Calculation of Profits
The calculation of the appropriate profits will generally be based on formulae which can be used in subsequent years. The calculation is based on 4 stages as follows:-

<u>Stage 1 – Calculation of the relevant intellectual property (IP) income</u>
This is income from the sales of the patented items, and items incorporating it, licence fees and royalties, patent disposals and compensation for infringement. It also includes the sale of products made via a patented process. In these circumstances the company can calculate a notional arm's length royalty for the use of the patent and include this in the relevant IP income.

<u>Stage 2 – Allocation of profits to the income</u>
Profits are then allocated to this income or a pro-rata basis or other reasonable apportionment.

(continued)

Stage 3 – Removing a routine return from these profits
It is assumed that a routine return of 10% could be achieved on costs even without a patent so this is deducted from the profits eligible for this regime.

Stage 4 – Removing the marketing return
The profits eligible for this regime are finally reduced by a further amount to reflect the return that can be achieved on marketing corporate assets such as company names and logos. This is achieved by deducting a notional marketing royalty.

Find out more

For further information, advice and guidance please contact our specialist:

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This is a general illustrative guide only and individual professional advice should be obtained on specific issues. Information is believed correct at time of publication but may alter.