



Patent Box

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What is the Patent Box?

The Patent Box regime enables companies to pay a lower rate of corporation tax of 10% on profits earned from their patented inventions. The purpose of the Patent Box is to provide an additional incentive for companies to retain and commercialise existing patents and to develop new innovative patented products in the UK.

A new reason to apply for a patent

Before the introduction of the Patent Box in April 2013, patent applications were filed to allow companies to protect their inventions and prevent them from being copied by their competitors. For a granted patent to provide useful commercial protection against infringers, the patent claims should be as broad as possible. However, obtaining such broad protection can sometimes be difficult because of the need to persuade the Examiner that the claimed invention meets the strict criteria to be patentable.

The Patent Box provides a completely new reason for filing a patent application – to take advantage of the available tax relief. Companies therefore need to adopt a different view and not just focus on whether a patent will provide useful commercial protection against infringers. To benefit from the Patent Box the patent claims need only to be broad enough to cover the actual product or process that is to be commercialised. This should make it easier (and cheaper) to obtain a granted patent.

What if I want to stop infringers and reduce corporation tax?

We can suggest possible filing strategies for clients that want to make the most of the Patent Box regime whilst still retaining the traditional benefit of being able to prevent their invention from being copied. For example, narrow protection for the commercial product or process could be obtained by filing a UK patent application that would be searched and examined quickly. This would enable tax relief to be claimed as soon as possible. At the same time a European patent application would be filed with broader claims.

Further information

Some basic information about the Patent Box is set out on the following page.

We cannot give any advice in relation to tax issues.

If you think that you might be able to benefit from the Patent Box then you should contact your accountant or tax advisor. We are, of course, happy to answer any questions you or your accountant might have about the IP-related aspects of the Patent Box.

Further information on the Patent Box is provided by HM Revenue & Customs at:

www.hmrc.gov.uk/ct/forms-rates/claims/patent-box.htm

Who will qualify?

To benefit from the Patent Box a company must hold a qualifying IP right or an exclusive licence in respect of a qualifying IP right. Individuals and partnerships do not pay corporation tax so they cannot benefit.

The company must also have undertaken qualifying development by making a significant contribution to the creation or development of the patented invention, or a product incorporating the patented invention. Care is therefore needed so that the rights are not lost when patents are bought and sold. Particular criteria apply when the company that elects to benefit from the Patent Box is part of a group.

A licensee must show that it has the exclusive right to develop, exploit and defend rights in the patented invention. The exclusive licensing conditions are relaxed for groups of companies, recognising the fact that one company in the group may own the IP rights while another exploits them commercially.

2016 Changes

Changes to the Patent Box were made in 2016 to ensure that it is consistent with new international standards proposed by the OECD to address Base Erosion and Profit Sharing (BEPS). The revised Patent Box scheme commenced on 30 July 2016 and has adopted the so-called “modified nexus approach” under which any benefit will be linked to the proportion of R&D expenditure incurred by the UK company to develop the IP asset relative to the total R&D expenditure incurred. If you have developed the product in-house in the United Kingdom this should not affect your entitlement to the tax relief.

What is a qualifying IP right?

The most common qualifying IP rights are likely to be patents, but the Patent Box also includes other rights such as supplementary protection certificates for pharmaceuticals, data exclusivity rights and plant variety rights.

- Patents will only qualify if they are granted by the:
- UK Intellectual Property Office (IPO)
- European Patent Office (EPO)
- Patent Office in one of the following countries in the European Economic Area (EEA): Austria, Bulgaria, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Poland, Portugal, Romania, Slovakia and Sweden

Whilst there might appear to be an opportunity for companies to try and obtain patents in EEA countries that apply a lower threshold of patentability, we believe that such ‘forum shopping’ will be limited because of the additional costs associated with foreign filing. It is likely that most companies paying corporation tax will continue to apply for patents at the IPO and EPO.

What income is covered?

The Patent Box covers worldwide income (not just in the territory where the patent is granted) from one or more of the following activities:

- The sale of patented products – including the sale of items protected by the IP right ('qualifying items'), items incorporating one or more qualifying items and bespoke spare parts
- Licensing (e.g. licence fees or royalties) or sale of the IP right
- Income derived from infringement or alleged infringement of the IP right
- Commercial exploitation of the IP right, e.g. carrying out a patented process or method – but only on the basis of a calculated notional royalty

The Patent Box can apply to income arising while a patent application is pending, with relief being given when the patent is finally granted. If a granted patent is subsequently revoked then the tax relief available through the Patent Box regime will cease from the date of revocation. The government has confirmed that there will be no attempt to claw back tax relief previously given.

When a qualifying item is incorporated into another product, e.g. a car with a patented door handle, the Patent Box will cover the full income from the sale of the car. However, the legislation contains provisions to specifically exclude income if the qualifying item is incorporated into another product for the sole purpose of taking advantage of the Patent Box.

Only income for up to six years before the grant date can be claimed. This means that if the patent application is pending for longer than six years (e.g. an application filed at the EPO) it will not be possible to claim relief for all income arising since the filing date.