



The Patent Box

As part of the government's corporation tax reform to encourage investment and growth in the UK economy they have introduced a new rate of corporation tax entitled the 'Patent Box'. The Patent Box applies to companies generating profit from patented products and processes.

What is the Patent Box?

It is a reduced 10% effective rate of corporation tax on profits attributed to patents and similar Intellectual Property (IP) from 1 April 2013. Worldwide income from existing IP as well as new IP will be included. To enable this, the full benefits will be phased in over five years, the 10% rate won't be effective until 2017/18. Smaller claims can benefit from a simpler calculation.

The Criteria

Must be a company subject to UK corporation tax, not an individual, partnership or LLP.

Only certain rights are included:

- UK Intellectual Property Office / European Patent Office Patents
- Supplementary Protection Certificates, Plant Variety and Data exclusivity rights including paediatric and orphan drug rights
- Secret Patents
- Company must hold a qualifying IP right or hold an exclusive licence over it
- Exclusive licensing definition relaxed for certain intra-group arrangements

It does not apply to any other IP such as trademarks or copyrights.

Development condition – your company must create, or significantly contribute to the creation of the protected item

Active ownership – if you are a member of a group you must actively manage the patent.

What sort of income will attract the lower rates?

1. Patent royalties and other income from licensing
2. Income from sale of patents
3. Infringement income
4. Income from sales of products with patents, or products incorporating patents
5. Sales of mixed patented and non-patented items

What are the new, effective lower rates of tax?

Financial Year	Companies paying the main rate of CT	Companies paying CT at the lower rate
2013/14	15.2%	13.2%
2014/15	13.9%	12.1%
2015/16	12.6%	11.0%
2016/17	11.3%	9.8%
2017/18	10.0%	8.7%

The Calculation

The actual calculation may be relatively complex as certain costs have to be established in order to calculate the profits to be subjected to Patent Box rates. This is where Armstrong Watson will assist you.

Summary

This is only a basic overview of the relief and full advice should be taken before making a claim.

Contact

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