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Patent Box

The Patent Box provides a reduced rate of corporation tax for companies exploiting patented inventions or certain other innovations protected by particular intellectual property (IP) rights.

How it works

The reduced rate applies to a proportion of the profits derived from the licensing or sale of the patent rights or from the sale of the patented invention or products which incorporate the patented invention. Profits derived from routine manufacturing, development or exploitation of brands and marketing intangible assets are excluded.

The reduced rate of tax is given by providing an additional deduction in the corporation tax computation.

To minimise administrative costs, Patent Box profits for many claims can be calculated using a formulaic approach which is intended to identify, in most circumstances, a reasonable figure for profit derived from the patent. Companies can opt to identify the profit through a more detailed calculation (not considered in this factsheet).

The election allows a deduction to be made in calculating the profits of the trade period. The amount of the deduction is:

$$RP \times \frac{(MR - IPR)}{MR}$$

where:

- RP is the relevant IP profits of the trade of the company,
- MR is the main rate of corporation tax, and
- IPR is the special IP rate of corporation tax (10%).

HMRC Example

If a company has trade corporation tax profits of £1,000, which qualify in full for the Patent Box when the main rate of tax is 22%, then instead of arriving at a tax charge of £100 by multiplying £1,000 by 10%, the calculation proceeds as follows:

Profits of Company's trade chargeable to CT	£1,000
Patent Box Deduction 1,000 x (22-10)/22	545
Profit Chargeable to corporation tax	455
Tax Payable £455 x 22%	£100

This approach is used, rather than directly charging the relevant profits at 10%, to avoid complications if the company claims losses or other reliefs and to simplify the way the Patent Box will be administered on corporation tax returns.

The formula is the same for companies charged at the main rate of corporation tax and for companies charged at the small profits rate, or at the main rate with marginal relief. This means that in some cases Patent Box profits may be charged at a little below 10%.

Phasing in of the regime

The regime applies to accounting periods commencing on or after 1 April 2013 and is to be phased in over the following four financial years.

The phasing in is achieved by applying the appropriate percentage to the relevant IP profits of the company for each accounting period as follows:

2013	60%
2014	70%
2015	80%
2016	90%

Conditions

The company must be a qualifying company and own or hold a license for a UK or European patent. There are two main conditions:

- the company must have undertaken qualifying development by making a significant contribution to the creation or development of the item protected by the patent or a product incorporating this item; and
- if the company holds a license in patent rights, the license must give it exclusivity for those rights. This must extend at least country-wide.

There are a number of detailed conditions and qualifying criteria within the scheme. We will be happy to discuss this matter in more detail.

How we can help

Please contact us if you would like more information on the Patent Box regime.