



What is Patent Box?

The Patent Box regime is designed to encourage companies to not only attain, but also commercialise their intellectual property in the UK. It enables companies to apply a lower rate of Corporation Tax (10%) to profits earned from patented inventions.

The Patent Box scheme can be engaged independently of the R&D Tax Relief Schemes, however claimants often engage both to provide benefits throughout the lifecycle of a product.

Who can Apply?

The Patent Box is available to UK companies who:

- Hold a Patent issued by the UK IP Office, European Patent Office (or certain EEA countries) or exclusive license and
- Meet the development and active ownership conditions – i.e. have developed the Patent in house (or in some cases through a group company). This is to prevent companies buying Patents and receiving the benefit despite having had no influence on the development.

The submission is made through the Corporation Tax return and an election must be made to enter into the scheme, which remains in place for future periods as long as the IP-related revenue is active. The claim can be made for accounting periods up to 24 months from the latest year-end.



The claim can be made for accounting periods up to 24 months from the latest year-end, and the scheme remains in place for proceeding periods as long as the IP-related revenue is active.

Calculation:

- 1 Take income attributable to Patent(s) and split these as appropriate.
- 2 Allocate debits to each income stream.
- 3 Routine Return deduction - Remove an element of 'routine' expenditure.
- 4 Marketing Assets return – strip out brand value where applicable.
- 5 Nexus fraction – Factor the claim where R&D activities are contracted to connected companies. This is an ongoing calculation and may need to be made over 20 years.

The Calculation can be highly complex and consequently, care is needed in the treatment and analysis to ensure the submission is accurate to reflect the facts.

For claims relating to the period after 1 April 2023, a company with a Relevant IP Profit of £500,000 will now receive a taxable benefit of approximately £75,000 owing to the increase in UK Corporation Tax..

Additional Points:

As well as sales income, claimants can also include royalty / licence fee income, proceeds of realisation and infringement income / damages.

The scheme is not restricted to product sales – process patents can also be included. Care is required to ensure an appropriate methodology is being used to work out the Relevant IP Income.

The scheme can only be entered into once a Patent has been granted, however profits realised during the Patent Pending

period can also be included. It is therefore important to ensure that records are kept for this period (up to 6 years) and suitable accounting systems are in place.

It is still possible to claim under the Patent Box regime even if only part of the product is patented, and in many cases, the applicable revenue is would not need to be apportioned.

Whilst companies still making a loss from their Patents can enter the scheme, there is no benefit to doing so (note that a loss making company may make a profit from Patented invention and vice versa).

If you would like to know more about how we can help, then please contact us on the below:



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