

Patent Box

The Patent Box is a UK Government scheme that enables companies to reduce their corporation tax on profits earned from patented inventions.



Who is eligible for Patent Box?

The Patent Box scheme enables UK companies to use their patents not just for protecting their innovation, but also for reducing the corporation tax on profits attributable to qualifying intellectual property (IP) to a rate of just 10 %.

To be eligible for the scheme, companies must: own or exclusively licence qualifying IP rights such as a valid UK or European patent; and undertake qualifying developments, meaning that they (or a related company in the same group) creates or contributes to creation of the patented invention, or performs significant activity to develop the patented invention, or a product or process incorporating the patented invention.



Who can benefit from Patent Box?

Companies that can benefit from Patent Box are those with pre-tax profits.

However, even for loss-making companies such as start-ups, it is highly advisable to track patent-related income and file patent applications so that a decision can be made to join the scheme once profits are made.

HMRC has also provided a simplified method for calculating tax relief where the qualifying profits are modest, thereby enabling small business to more easily make use of the Patent Box scheme.

R&D tax credits can be used in combination with Patent Box tax relief and, indeed, the claiming of R&D tax credits often indicates that a company could also benefit from the Patent Box scheme.



A worked example

Patent Box tax relief is calculated as a deduction to avoid complications if you claim losses or other reliefs. The Patent Box deduction is calculated using the following formula¹:

$$RP \times ((MR - IPR) \div MR)$$

where:

- RP is the profits of a company's trade relevant to Patent Box
- MR is the main rate of Corporation Tax
- IPR is the reduced rate of 10 %

The following example is based on one given in HMRC's guidance on Patent Box. If a company has corporation tax profits of £1,000 in the financial year from 1 April 2018, which qualify in full for the Patent Box, and the main rate of corporation tax is 19 %, then:

$$\text{Patent Box deduction} = \pounds 1000 \times ((19\% - 10\%) \div 19\%) = \pounds 474$$

The tax payable may then be calculated by subtracting the Patent Box deduction from the annual profits, before applying the main rate of corporation tax:

$$\text{Tax payable} = (\pounds 1000 - \pounds 474) \times 19\% = \pounds 100$$

Without the Patent Box deduction, tax payable would have been $\pounds 1000 \times 19\% = \pounds 190$, i.e. almost double.



As a result of this government initiative, many companies can benefit significantly from obtaining patents.

¹ Assuming that the tax year in question falls after 1 April 2017



How can we help your business?

A patent is an intellectual property right granted by a country's government for protection of an invention within its territory for a limited period (normally 20 years).

The team at Mathys & Squire are highly experienced with helping their clients obtain and maximise the potential tax savings that are available through the Patent Box scheme.

We can **file patent applications** solely for the purpose of enabling Patent Box tax relief to be claimed, and have done so for many of our clients. In this scenario, we can prepare a patent application which is narrower in scope in order to minimise the costs and timescale associated with obtaining a granted patent. This route is often attractive to **SMEs**. Where needed, we can also help with identifying innovations which are suitable for patent protection and which cover commercial products or processes.

For **larger companies**, or those with a significant IP portfolio, we can **review the portfolio** in order to map existing products to qualifying IP rights and assess potential Patent Box benefits available. We can also assess whether there are any gaps in the portfolio which, if filled, would enhance the tax relief available.

For companies of all sizes, we can advise on a **corporate structure** that may help take full advantage of the potential Patent Box benefits.

We are used to **working closely with finance teams** of different sizes, both in-house and at large external accountancy firms to maximise the tax relief achieved on profits. We can assist in providing the required patent-product maps and legal opinions required for a successful Patent Box claim, as well as helping to resolve any legal issues that could hold up your Patent Box claim.

For more information:

If you would like to know more about the Patent Box scheme, or have specific questions about how we could help your business, please contact us.