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Patent Box – Update

In June 2011 the UK Treasury released further details of the “Patent Box”, which is the proposed 10% corporate tax regime for profits derived from patents from 1 April 2013.

A second period of consultation until 2 September 2011 is now taking place. It intends to identify the best options, develop a framework for implementation of the Patent Box and carry out detailed policy design. The UK government intends to publish draft legislation in Autumn 2011. However, the details released in June 2011 provide more insight into how the Patent Box will be implemented, particularly regarding what patents and income will qualify for the regime, and how taxable profits are to be calculated.

The Patent Box will initially be restricted to profits derived from patents granted by the UK Intellectual Property Office (UKIPO), the European Patent Office (EPO) and some other patent offices having formal examination procedures and which are yet to be decided. This is because not all national patent offices carry out a formal procedure to examine patent applications for novelty and inventiveness, so the UK government considers that patents granted by some national offices without undergoing examination may be more prone to revocation than patents granted by offices carrying out examination. However, the Patent Box will apply to profits resulting from worldwide income earned by UK businesses from inventions covered by a qualifying patent, and not just income that falls within the territorial limitations of a particular patent granted by the UKIPO or EPO.

The regime will apply to UK companies owning or having an exclusive licence (i.e. resulting in effective market exclusivity) under qualifying patents, as well as patents developed under partnership, joint venture and cost-sharing

arrangements. Companies entitled to receive patent income or exploit a patent under such an arrangement will need to be actively involved in the patent development cycle and not merely passive recipients of income from holding patents.

All royalties or licence fees received for the use of an invention covered by a currently valid qualifying patent will be covered by the Patent Box, regardless of whether the invention is used by the licensee in an industrial process or incorporated into patented products, as well as the income embedded in patented products. This is income from sale of any products incorporating at least one invention covered by a currently valid qualifying patent, but detailed criteria governing sale of spare parts and aggregate products have also been set out. Damages paid by third parties for infringing a qualifying patent will also apply, but income from products made by a patented process will not be included in the Patent Box. However, divisionalisation rules will enable one part of a company to grant a licence to another part of the company to use a process covered by a qualifying patent, and the royalty generated will be included as qualifying income.

Once a patent is granted, a company will be able to claim Patent Box benefits for any income which arose between the patent application date and the date of grant of the patent, for up to four years prior to grant.

It is suggested that patent box income be calculated by:

- Calculating the profit derived from qualifying income by dividing profits and expenses pro-rata between income from patents and patented products and other income;

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- Deducting from this profit any profit that the company would have made without the patent; and
- Separating from the profit in step 2 the profit from non-patent intellectual property.

Although further details will be set out in the draft legislation proposed for autumn 2011, the details already available give considerable guidance on how UK companies can benefit from the Patent Box. For example, applying for accelerated examination of UK patent applications, through the UKIPO “green channel” where appropriate, in order to obtain a granted qualifying patent as soon as possible, should be considered since the Patent Box will apply to worldwide income derived from a product covered by a qualifying granted UK patent. It therefore makes sense to obtain quick grant of a UK patent while the overseas patent applications are still pending.

Further details can be found in the consultation document at the following link:

http://www.hm-treasury.gov.uk/d/consult_patent_box.pdf

Contact Us

These notes are provided for guidance only, and do not deal with specific problems. For further information, please visit our website at www.udl.co.uk or contact one of our offices:

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