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Patent Box

three stages to Patent Box benefit

The Patent Box regime introduced in April 2013 provides tax relief for UK companies exploiting certain qualifying patents. The regime effectively provides for a 10 per cent tax rate on qualifying profits derived from patents.

Stage I

Obtaining the patent or reviewing your existing portfolio

The benefits of the regime are available for income derived from UK or EPO patents (and certain other EEA countries designated by HMRC – presently Austria, Bulgaria, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Poland, Portugal, Romania, Slovakia and Sweden) which a company owns or has exclusively licensed. The regime also covers other related technology rights such as Supplementary Protection Certificates and Plant Variety Rights.

The first step is to get a granted patent via the UKIPO or the EPO (or a designated EEA country). This may lead you to getting patents for technology which you might otherwise not have sought patent protection for. It may also involve you doing an audit on what patents you already hold.

Any new application prepared with the new regime in mind will need to be carefully drafted to provide the maximum 'patent derived income' to the company. For example, a patented process will not necessarily make all the product of the process 'patent derived income' but a small patented item included in a large item will make all the sales of the large item 'patent derived income'. So the patent drafting should be framed to create the maximum derived income from the patent. This style of drafting may run counter to current 'norms', but we believe need not be incompatible with obtaining good protection for infringement purposes.

This means that patent claims that would otherwise be too narrow to have real commercial value, might now be viable. Thus products dismissed during a patent review process might need re-considering.

However, it is important to recognise that processes and products which are already in the public domain cannot usually be subsequently protected by patent (although there are some exceptions to this rule and advice should be sought at an early stage if you are considering such retrospective protection). Also, options for adding material into existing patents and patent applications are extremely limited in Europe.

Patents typically take several years to grant, but acceleration options are available. Generally, the UKIPO can be made quicker than the EPO, but acceleration is harder to activate at the UKIPO, thus there are some decisions to be made on filing strategy which may also differ from conventional 'norms'.

Stage II

Establishing the commercial and legal relationships for exploitation of the patents.

The company has to satisfy certain conditions such as having undertaken significant development of the patent or the product incorporating it.

Also the legal and commercial relationships for acquiring or exploiting the patent are important in defining how much of your income can qualify for the 10% rate. Some of these will be determined by the relationships you form for exploiting the patent. For example, when licensing patent rights an exclusive licence is necessary for the income from the right to qualify for the 10% rate. On exploiting the patent rights for example, a small patented item included in a large item will make all the sales of the large item patent derived income. Embedding the patented item in the larger item can widen the income qualifying for the 10% rate.

Licence schemes and even infringement settlement structures may now need revising to maximise the tax relief advantage.

Stage III

Calculating the profit benefiting from the 10% rate.

The final stage is the calculation of the profit generated by the patent derived income. There are a range of options to arrive at the profit in the Patent Box and each patent owner needs to understand which approaches will give the best result. You also need to understand when to elect in to the Patent Box since this might not be advantageous in the start-up period.

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