

Patent Box Benefits for the chemicals sector



The Patent Box legislation has been introduced to encourage innovation in the UK. Under the regime, and from April 2013, a lower effective rate of corporation tax applies on profits attributable to certain UK or European patents – by 2017 the tax rate for such profits will be as low as 10%. But how does this apply to the chemicals sector?

Can I qualify if I have a non-UK parent company?

The aim of the new Patent Box regime is to encourage companies to locate or retain high-value jobs associated with the development, manufacture and exploitation of patents in the UK. Companies located in the UK can benefit if the qualifying patent is held by the UK company, but also if it is held elsewhere and the UK company has an exclusive licence to use the technology in a territory. Consequently, companies belonging to groups headquartered overseas may still be eligible to make Patent Box claims as long as they have real and substantial rights to the patentable technology.

Mapping made easier

All income from product sales will qualify for Patent Box if those products either incorporate a patented item or are wholly or mainly designed to be incorporated into a patented item. Manufacturers with a wide range of consumer products may find the process to connect patents and products daunting.

Deloitte's patent specialists have experience of mapping patents to products and have methodologies to simplify the process. These processes allow the compliance burden to be managed whilst ensuring that the claim should be acceptable to HMRC. Deloitte can help a company identify the most suitable approach to carrying out the mapping exercise based on the facts and circumstances for that company.

Can I patent the manufacturing process?

As well as patenting the end product of a manufacturing process it is also possible to patent the manufacturing process itself. In some cases patents covering the process will also include a claim to the product, but this will not always be the case. This distinction is important for the Patent Box, as where there is no claim to the product, a company will have to use transfer pricing principles to calculate the Patent Box benefit (notional royalty) which means the benefit will be higher where there is product patent.

Maximising R&D tax relief

Maximising R&D tax relief claims would be beneficial for companies in light of Patent Box as it has a positive impact on the Patent Box benefit. This is because when calculating the profits benefiting from Patent Box, the costs that form the basis of your R&D tax relief claim do not get included in the routine return calculation (which deducts a 10% mark up on certain costs), leaving more profit to benefit from Patent Box.

Although a wide variety of companies are already claiming for new product development activity, Deloitte has seen that many manufacturing companies are missing out on R&D claims for development projects where existing products are being improved, or where process improvement activity is being undertaken, including R&D in developmental full production trials.

Why Deloitte?

Implementing a successful Patent Box program requires a range of specialist skills as well as a multi-disciplinary approach. The Deloitte Innovation tax team has the following the capabilities:

- **In-depth Patent Box technical knowledge** – of the legislation and how it applies in practice.
- **IP strategy capabilities** – from the combined team of patent specialists and a patent attorney.
- **Experience in securing Patent Box agreements with HMRC** – including issues such as notional royalty, notional marketing royalty and general methodology.
- **Technology, R&D and Engineering specialists.**
- **Corporation tax and transfer pricing specialists** – with specific focus on notional royalty and notional marketing royalty expertise by industry.
- **Commercial and business strategy experience.**



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Designed and produced by The Creative Studio at Deloitte, London. 31514A