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Specialist Tax Advisors

Tax Rewards for Innovative Companies

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The present Government has carried on the theme set by the previous administration to reward companies that develop innovative products through the tax system.

The spring 2011 Budget and recent consultations have brought further potential tax breaks to the table in an effort to encourage research and development and its commercialisation within the UK.

A very brief summary of the recent developments is provided below.

Research and Development Tax Credits

R & D Tax Credits first became available to UK companies in 2000.

Latest figures suggest that around 6,500 small or medium sized companies claim relief. However, the Treasury believes more could be claiming and so to encourage claims and innovative behaviour the conditions and the amount of relief have regularly changed.

The Budget announced that the amount of additional tax relief will be:

- 100% of qualifying costs in 2011/12; and
- 125% of qualifying costs from 1 April 2012

This represents a significant increase in the relief and companies could now save tax of up to 32.8p for every £1 spent on R&D if a qualifying claim is made.

Also some proposed changes to the conditions surrounding the claim are set to be introduced from 1 April 2012:

- The amount of the tax rebate available to loss making companies will not be limited by the amount of PAYE they have suffered
- The £10,000 minimum floor for qualifying expenditure will be scrapped

The Patent Box

The Treasury continues its consultation with Industry and Tax Professionals around a reduced rate of Corporation Tax for companies that patent their products in the UK.

More detail became available through an initial consultation document at the start of this year.

The UK Government feels it is becoming more common for high-tech companies to have a choice for where they base their Intellectual Property and where they carry out their work to develop it. Hence they intend to introduce a preferential tax regime so as to promote the UK as a base for companies with Intellectual Property.

The suggested regime is in the form of a 10% rate of corporation tax for profits arising from patents from 1 April 2013, and will be known as the Patent Box.

All patents that are “commercialised” from 29 November 2010 will qualify for the Patent Box.

It is suggested that the Patent Box will apply to royalty income and trading profits from the exploitation of a patent by its owners.

In essence the Government wish to limit the trading profit from exploitation that will be allowed into the Patent Box, to a rate that would be akin to a royalty.

However a major area of uncertainty in the consultation process is what rules should be applied to limit profit to the patent box appropriately.

The next stage of the consultation process is for a further consultation document to be issued by the Treasury later in the year. We will keep you informed of developments and will be responding as a firm on behalf of SME companies.

The overall message is that successive governments have shown commitment to the Patent Box and therefore its introduction, whilst still not absolutely confirmed, must be expected.

As patents commercialised now may qualify for the reduced tax rate, this is certainly a further point to consider in a decision as to whether to apply for patent.

Please note that some of the proposed changes mentioned above are subject to State Aid Approval being granted by the EU.

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