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Patent Box

September 2016

Statistics on uptake of the Patent Box

An Official Statistics Release

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Section 1: Introduction

About these statistics

This is an Official Statistics publication produced by HM Revenue & Customs (HMRC). It provides information on the number of companies claiming relief under the UK Patent Box and the value of this tax relief in 2013-14 (the first year of the Patent Box).

These statistics, which include breakdowns by company size, industry sector and UK region, are published for the first time on 14 September 2016.

Section 2 gives a summary of the key Patent Box statistics for 2013-14. Section 3 provides data broken down by company size, industry sector and UK region. And Section 4 gives some background information about the Patent Box and how these statistics have been produced.

The amounts of relief claimed under the Patent Box have been rounded to the nearest £100,000 and the numbers of companies claiming the relief have been rounded to the nearest 5. Because of the rounding some breakdown figures may not add up to provided totals.

These statistics are produced to the professional standards set out in the Code of Practice for Official Statistics (2009)¹. For more information on Official and National Statistics and the governance of statistics produced by public bodies, please visit the UK Statistics Authority website:

www.statisticsauthority.gov.uk

HMRC Official and National Statistics can be found on the gov.uk website:

<https://www.gov.uk/government/organisations/hm-revenue-customs/about/statistics>

Who might be interested in these statistics?

This publication is likely to be of interest to policy makers in government, academics, research organisations, international bodies, the media and patent holding businesses.

People interested in this publication may also be interested in HMRC's National Statistics publication on Research and Development tax credits:

<https://www.gov.uk/government/collections/corporate-tax-research-and-development-tax-credits>

¹ <http://www.statisticsauthority.gov.uk/assessment/code-of-practice/>

Section 2: Summary and key points

The UK Patent Box enables companies to apply a lower rate of Corporation Tax to profits earned after 1 April 2013 from their patented inventions and equivalent forms of intellectual property. The relief has been phased in from 1 April 2013 and the full benefit of the Patent Box will be available from 1 April 2017. The lower rate of Corporation Tax under the Patent Box is 10%.

Companies must notify HMRC if they wish to claim relief under the Patent Box. This has to be done within two years after the end of the accounting period in which the relevant profits and income arise. Given this time lag, a complete set of data for the first year of the Patent Box – covering the period 1 April 2013 to 31 March 2014, known as the 2013-14 fiscal year – has only recently become available. This data is published for the first time in this release.

We are reviewing the extent to which publishing provisional statistics based on claims made during the first of the two years after the end of the accounting period would be useful for future publications.

The 2013-14 data shows that most of the relief claimed under the Patent Box was by large and medium sized companies, by companies in the 'Manufacturing' sector, and by companies based in London, the East of England and Yorkshire & Humberside.

2.1 Key points

- In 2013-14, 700 companies claimed relief under the Patent Box with a total value of £342.9 million.
- Just under one third of the companies (225 or 32.1% of total) were large and together they claimed £327.2 million of relief under the Patent Box (95.4% of the total).
- Most companies were in 'Manufacturing' (445 or 63.6% of the total). The second highest number were in 'Wholesale & Retail and Transport' (115 or 16.4% of the total).
- Companies in 'Manufacturing' claimed the highest value of relief under the Patent Box (£216.9 million or 63.3% of the total) followed by companies in 'IT, Financial Services and Real Estate' (£58.5 million or 17.1% of the total).
- The number of companies claiming relief under the Patent Box varies across UK regions. The highest number were located in the South East (115 or 16.4% of the total) and the lowest number were in Northern Ireland (15 or 2.1% of the total).
- The value of relief claimed under the Patent Box also varies widely across UK regions. Companies in London claimed the most (£196.8 million or 57.4% of the total) while companies in the North East claimed the least (£1.6 million or 0.5% of the total).

Section 3: Distribution of Patent Box data

This publication presents statistics for the first year of the UK Patent Box (2013-14). As this is a new release, there is currently no historic data available to analyse trends over time. Future publications will include a comparison of Patent Box data across years. Tables 1, 2 and 3 below provide breakdowns of the Patent Box data by company size, industry sector and UK region for the period 1 April 2013 to 31 March 2014.

3.1 Company size

Company size breakdowns are based on the European Union Enterprise Size Classification (see Appendix A).

Nearly one third of companies claiming relief under the Patent Box are classified as 'Large' (225 or 32.1% of the total) while around one sixth are 'Micro' (120 or 17.1% of total). The remaining half are 'Small' or 'Medium' sized companies with roughly equal numbers of each.

Most of relief claimed under the Patent Box is by large companies (£327.2 million or 95.4% of the total).

Table 1: Patent Box data by company size, 2013-14

Company size	Companies		Relief claimed under Patent Box	
	Number	Number as a percentage of total	Amount (£ million)	Amount as a percentage of total
Large	225	32.1%	327.2	95.4%
Medium	175	25.0%	11.8	3.4%
Small	170	24.3%	3.0	0.9%
Micro	120	17.1%	0.9	0.3%
Unknown	5	0.7%	0.1	0.0%
All	700	100.0%	342.9	100.0%

Source: HMRC data

Notes: 1. Amounts of the relief have been rounded to the nearest £100,000 and the number of companies have been rounded to the nearest five. Figures might not add up to totals due to this rounding.

3.2 Industry sector

Industry breakdowns are based on the Standard Industrial Classification (SIC) 2007 and some have been combined to avoid disclosure (see the footnote below table 2 for more details). More details on the SIC 2007 can be found in Section 4.

Most companies claiming relief under the Patent Box are in 'Manufacturing' and 'Wholesale & Retail and Transport' (560 companies or 80% of the total). Many companies that

undertake research and development also manufacture and/or sell their products either wholesale or retail, which explains this high proportion.

Over 60% of relief claimed under the Patent Box is by companies in 'Manufacturing' and around 10% by companies in 'Wholesale & Retail and Transport'. While companies in 'IT, Financial Services and Real Estate' make up a relatively small proportion of the numbers claiming relief under the Patent Box (3.6%) they claim a relatively large share of relief (17.1%).

Table 2: Patent Box data by industry sector, 2013-14

Industry sector (Standard Industrial Classification 2007)	Companies		Relief claimed under Patent Box	
	Number	Number as a percentage of total	Amount (£ million)	Amount as a percentage of total
Manufacturing	445	63.6%	216.9	63.3%
Construction	15	2.1%	-	-
Wholesale & Retail and Transport	115	16.4%	34.7	10.1%
Information & Communication, Financial & Insurance and Real Estate	25	3.6%	58.5	17.1%
Professional, Scientific & Technical	65	9.3%	21.6	6.3%
Admin & Support Services, Education, Health and Other	35	5.0%	-	-
All	700	100.0%	342.9	100.0%

Source: HMRC data

Notes:

2. A hyphen ('-') indicates figures have been suppressed to meet confidentiality requirements.
3. The following SIC sectors have been combined to prevent disclosure: 'Wholesale & Retail' and 'Transport'; 'Information & Communication', 'Financial & Insurance' and 'Real Estate'; 'Admin & Support Services', 'Education', 'Health' and 'Other'.
4. Amounts of the relief have been rounded to the nearest £100,000 and the number of companies have been rounded to the nearest five. Figures might not add up to totals due to this rounding.

3.3 UK regions

Geographic breakdowns are based on the UK Government Office Regions (see Section 4). When interpreting these statistics it should be noted that companies can have a single address for tax purposes (for example, a headquarters location) even though they may have operations across the UK. This analysis is based on taxpayers' addresses given to HMRC for tax purposes.

The South East has the highest number of companies claiming relief under the Patent Box in 2013-14 (115) followed by the East of England (90) and the West Midlands (80). The smallest number of companies is in Northern Ireland (15).

Companies in London claimed the most relief under the Patent Box (£196.8 million or 57.4% of the total) followed by companies in the East of England and Yorkshire & Humberside. Companies in the North East claimed the least (£1.6 million or 0.5% of the total).

Table 3: Patent Box data by UK region, 2013-14

Government Office Region (GOR)	Companies		Relief claimed under Patent Box	
	Number	Number as a percentage of total	Amount (£ million)	Amount as a percentage of total
North East	20	2.9%	1.6	0.5%
North West	55	7.9%	3.3	1.0%
Yorkshire & Humberside	75	10.7%	28.6	8.3%
East Midlands	55	7.9%	22.4	6.5%
West Midlands	80	11.4%	14.2	4.1%
East of England	90	12.9%	28.8	8.4%
London	70	10.0%	196.8	57.4%
South East	115	16.4%	18.6	5.4%
South West	65	9.3%	12.0	3.5%
Scotland	35	5.0%	9.7	2.8%
Wales	20	2.9%	4.8	1.4%
Northern Ireland	15	2.1%	2.0	0.6%
All	700	100.0%	342.9	100.0%

Source: HMRC data

Notes: 5. Amounts of the relief have been rounded to the nearest £100,000 and the number of companies have been rounded to the nearest five. Figures might not add up to totals due to this rounding.

Section 4: Background information

The UK Patent Box was introduced in the Finance Act 2012, effective from 1 April 2013, having been announced in the 2010 Corporate Tax (CT) Roadmap. It applies a lower (10%) rate of Corporation Tax to profits attributable to patents and equivalent forms of intellectual property (IP). This is delivered by an additional deduction, based on the level of IP profits so that the benefit to the company is equivalent to that of a lower rate. The benefit is being phased in and companies will fully benefit from the 10% rate from 2017-18.

The aim of the Patent Box is to provide additional incentive for companies to:

- Increase the level of patenting of IP developed in the UK, and ensure that new and existing patents are further developed and commercialised in the UK;
- Manufacture and sell those innovative products and services from the UK; and
- Encourage companies to locate the high-value jobs associated with the development, manufacture and exploitation of patents in the UK.

The Government has recently made changes to the design of the Patent Box to comply with a new international framework for preferential tax regimes for IP set out by the Organisation for Economic Co-operation and Development (OECD).

This means that the amount of profit from an IP asset which can qualify for the reduced 10% rate of Corporation Tax available through the Patent Box will depend on the proportion of the asset's development expenditure incurred by the company. More details can be found here:

<https://www.gov.uk/government/publications/corporation-tax-patent-box-compliance-with-new-international-rules/corporation-tax-patent-box-compliance-with-new-international-rules>

The above policy changes are expected to have some impact on future trends of Patent Box claims (and statistics).

4.1 Data sources and reliability of the estimates

The Patent Box statistics in this release are compiled using data collected from electronically filed company tax returns. The Corporation Tax computations, where relief under the Patent Box is claimed, are submitted to HMRC in iXBRL (electronic) format. This allows companies to electronically 'tag' their Patent Box claim so that the number and value of each claim can be extracted automatically.

Tagging errors

Some Patent Box claims do not have the correct iXBRL 'tag' applied to them. Further review and scanning of tax computation documents was therefore required to identify computations containing relevant terms such as "Patent Box" or "Patent Relief" that would otherwise be missed.

HMRC is currently working to improve and extend its electronic text reading capabilities to routinely 'read' all documents submitted as part of the company tax return. While this will make it easier to find Patent Box claims in future, we expect there to be little impact on the figures provided in this publication because of the manual review work and extra quality assurance undertaken in preparing the statistics.

All of the tax computations identified via the iXBRL 'tagging' or text reading processes outlined above were then manually reviewed to:

- Ensure that the tags were used correctly for Patent Box claims;
- Extract the value of the claim if found by text reading and confirm the position in other years where there was no apparent claim; and
- Ensure that when amendments to returns were made only the difference in amounts was recorded to avoid double counting.

Industry sector information

Companies in HMRC's data are allocated a Standard Industrial Classification (SIC) 2007 code that best describes a company's primary economic activity. More details can be found here:

<https://www.gov.uk/government/publications/standard-industrial-classification-of-economic-activities-sic>

However, some companies engage in more than one type of economic activity. The industry sector breakdown in this publication does not necessarily indicate where a company's research and development activity takes place. For example, a company primarily doing manufacturing (and therefore allocated to the 'Manufacturing' sector) could also have a branch undertaking research and development activity in the 'Scientific' sector. For this reason, the industry sector information should be viewed as only a broad picture as to where activity takes place.

Geographic information

The geographic information in this publication is based on the addresses given by companies claiming relief under the Patent Box. The location of this address is not necessarily where a company's research and development (or other) activity takes place. Companies provide a Registered Office address to HMRC for communication purposes, but can have business activities located in other UK regions.

4.2 Revisions to published information

The Patent Box figures are subject to revision. Although the majority of returns are finalised within two years of the end of the company's accounting period, there are exceptional cases which can take longer. As a result, there is no specific point at which data for the latest year can be considered as complete and final. In practice, the statistics are revised to replace any figures marked as provisional in the previous release of the statistics. However, where the

revision to a year is particularly small and would lead to the potential disclosure of individual companies, these revisions will be suppressed (based on our standard approach to statistical disclosure control) until a subsequent release.

4.3 Planned developments and changes

Frequency of publication

HMRC plans to publish these Patent Box statistics annually as each year of data becomes available from company tax returns.

Statistics alignment

Because of the way the Patent Box is designed a complete set of annual data of the relief for any given year becomes available only after two years from the end of that given year. This means Patent Box statistics lag behind by at least one year compared to other tax statistics produced by HMRC.

To align Patent Box statistics with the rest of HMRC publications we are reviewing the extent to which publishing provisional statistics based on claims made during the first of the two years after the end of the accounting period would be useful for future publications.

User engagement

HMRC is committed to providing impartial quality statistics that meet our users' needs. We encourage our users to engage with us so that we can improve our National and Official Statistics and identify gaps in the statistics that we produce. Please see the following link for HMRC Statistics "Continuous User Engagement Strategy":

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/278751/HMRC_statistics_continuous_user_engagement.pdf

If you would like to comment on these statistics or have any enquiries, please use the statistical contacts named at the end of this section and on the cover page. Alternatively, we would welcome any views or comments you have via the HMRC statistics blog:

<https://hmrstatistics.blog.gov.uk/>

4.4 UK Statistics Authority assessment

This publication has yet to be assessed for compliance with the Code of Practice for Official Statistics by the UK Statistics Authority (UKSA). This means that the figures in this publication are not yet classified as National Statistics, but as Official Statistics.

UKSA is an independent body directly accountable to Parliament with the overall objective to promote and safeguard the production and publication of official statistics. It is also

required to promote and safeguard the quality and comprehensiveness of official statistics and good practice in relation to official statistics.

Please refer to UKSA's website for more details about the assessment process:

<https://www.statisticsauthority.gov.uk/monitoring-and-assessment/assessment/>

We aim to ready this publication for UKSA assessment in the future.

Contact points

Enquiries about these statistics should be directed to:

Stuart Kozam
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HM Revenue & Customs
100 Parliament Street
London SW1A 2BQ
Telephone: 03000 589 038
E-mail: stuart.kozam@hmrc.gsi.gov.uk

For enquiries relating to the Patent Box policy please contact:

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HM Revenue & Customs
100 Parliament Street
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Media enquiries should be directed to the HMRC Press Office contacts listed on the front page of this release.

For general or other enquiries please refer to HMRC's website:
<https://www.gov.uk/government/organisations/hm-revenue-customs>

Appendix A: Company size definitions

Company size definition

The size of a company is based on the European Union Enterprise Size Classification as shown in the following table:

European Union Enterprise Size Classification	Turnover (€ million)	Total assets (€ million)	Number of employees
Micro	2	2	9
Small	10	10	49
Medium	50	43	249
Large	> 50	> 43	250+

The values shown are upper limits (except for the 'Large' category). To be classified as a certain size, a company must meet the Employee limit and one or other of the Turnover and Total assets limits. Information on turnover, total assets and number of employees comes from various internal and external sources. Where this information is missing companies have been grouped into the 'Unknown' category.