



PATENT BOX - DO YOU HOLD *QUALIFYING IP RIGHTS*?

Summary

In order to benefit from the Patent Box, a company must hold or have an exclusive license to a *qualifying IP right*. Here we discuss the definition of a *qualifying IP right*.

Qualifying IP Right

In order to be regarded as a *qualifying company*, one of the conditions a company must meet is that it holds or has an exclusive license to a *qualifying IP right*.

Qualifying IP rights can be patents granted by the UK and European Patent Offices (irrespective of the countries in which they are validated) and patents granted by at least some other EEA Member States (currently Austria, Bulgaria, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Poland, Portugal, Romania, Slovakia and Sweden). Patents granted by the US Patent and Trademark Office or the Japanese Patent Office are excluded. *Qualifying IP rights* can also include rights applicable to human and veterinary medicines and plants, namely Regulatory Data Protection, Supplementary Protection Certificates and Plant Variety Rights. However, trade marks, designs and copyright are not listed as *qualifying IP rights*.

It does not appear necessary for the *qualifying IP rights* to relate to the territory in which the profits are generated.

In order for the IP rights to be *qualifying IP rights*, the company must also meet a development condition and an active ownership condition.

The Development Condition

In order for the IP rights to be *qualifying IP rights*, the company must meet a development condition by fulfilling one or more of the following criteria:

- the company creates the invention
- the company significantly contributes to the creation of the invention (including developing ways in which the invention may be used or applied)
- the company performs a significant amount of activity to develop the invention or any item or process incorporating it

The situation may arise where a company, after meeting the development condition, becomes a member of a group of companies (the definition of a “group” is quite broad), ceases to be a member of a group of companies, or cedes a major shareholding to another company. After such an event, in order to continue to qualify for Patent Box relief, it may be necessary for the company to meet the development condition again within a maximum period of 12 months, or to fulfil an active ownership condition as described below.

For a company which is a member of a group of companies, it may be acceptable for another company in the group to meet the development condition. However, in such a case it will be necessary to show that the company claiming the benefit of the Patent Box is actively involved in the ongoing active management of the *qualifying IP rights* as described below in relation to the active ownership condition.

It is possible for group companies jointly to fulfil the development condition. However, for the purposes of calculating *relevant IP income*, any Patent Box loss must be offset against any Patent Box profits in the same group of companies and vice versa.

The Active Ownership Condition

The active ownership condition requires the company either to have carried out the development activity itself or to be actively involved in the ongoing active management of the *qualifying IP rights*.

If the company has not met the development condition itself, but a different company in the same group has met it, the company claiming the Patent Box benefit must itself be deemed to be actively involved in the ongoing management of the *qualifying IP rights*. In order to meet this condition the company must be involved in the planning and decision-making activities associated with developing or exploiting substantially all of its qualifying IP portfolio. Activities such as deciding whether to maintain protection in particular jurisdictions, grant licences, research alternative applications for the innovation or license others to do so count as management activity. Similarly, where the rights are being exploited by incorporating the item sold into larger products, activities such as deciding which products will go to market, what features those products will have and how and where they will be sold will also count as management activity.

Whether what is done is a significant amount of management activity is to be determined in the light of all relevant circumstances, given the resources the company employs, the breadth of its responsibilities for the IP and the significance

and impact of the decisions and plans that this particular company, as opposed to other group companies, makes in relation to that IP.

HRMC are of the opinion that the active ownership requirement is unlikely to be particularly onerous in most cases.

Relevance of Development and Active Ownership Conditions to Buying and Selling IP

The development and active ownership conditions were intended to prevent a company from simply buying IP in order to benefit from the Patent Box without contributing in any way to its development or on going management. The nexus fraction introduced in the post- 1 July 2016 Patent Box rules which links any Patent Box benefit with the amount of R&D expenditure by the company further reduces the scope of obtaining benefit from the Patent Box by buying IP without continuity to its development. Therefore, when buying (or indeed selling) IP, consideration should be given to the structure of any agreement to take into account the potential to benefit from the Patent Box after the transaction has been completed, as well as the requirement to meet the development condition and the active ownership condition and how, using post- 1 July 2016 Patent Box rules, the requirement to calculate a nexus fraction might effect the Patent Box benefit available.

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