



Institute for
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Support for research and innovation: The Patent Box

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Patent Box

- Reduces corporation tax rate from 28% to 10% for the income from patents
- Very few details at this stage
 - Apply to income from patents granted after April 2013
 - There will be consultation before introduction in the 2011 Finance Bill
 - Treasury estimate revenue cost at £1.3bn
- Stated aim of the policy: “strengthen the incentives to invest in innovative industries and ensure the UK remains an attractive location for innovation”

Why Government supports innovation

- Market failures:
 - External benefits: ideas are difficult to own; others benefit from results without bearing costs. As a result the market provides insufficient incentives for investment
 - Financial market failures: difficult to secure external finance for risky and intangible projects
- These market failures are largest in the area of basic science
- Without market failures it is not clear why government should intervene

Well targeted policy?

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Activity:	Research & Discovery	Development	Commercialisation and income creation
Market failures	Large external benefits Financial market failures	Small external benefits	Few external benefits
Policy Responses	R&D tax credits VC funds Patents (monopoly rights)	R&D tax credits	PATENT BOX

- Income is a function of both the quality of the idea and the market power of the firm

Increased incentives to invest in innovation?

- Large time lag between a new idea and the income stream from patents
 - Small incentives for marginal projects
 - No affect on financial constraints
- Increased development & commercialisation activities to create more income
 - Low external benefits
- Will the UK be a ‘more attractive location’?
 - Incentives to locate the from patents in the UK
 - Unlikely that the research underlying eligible patents will need to have been conducted in the UK

Who will benefit?

- In theory all firms which create income from patents
- In practice a few large firms hold the majority of patents
 - In 2005, of all the patent applications filed by UK headquarted firms to the European Patent Office, the 4 largest firms accounted for over a fifth
 - Likely that these firms are also most able to create large income streams

Costs

- Large deadweight costs
 - Subsidising activity that would have happened already
 - Firms attributing more income to patents
- Cost in forgone revenue: Treasury estimate £1.3bn
 - Coming at a time of large cuts elsewhere, including to science and research and higher education budgets