



Patent Box for the Software Industry

The software industry has been a major beneficiary of the R&D tax credit regime in the UK. Although more obviously suited to the manufacturing and pharmaceutical industries, the software industry can also benefit from UK Patent Box legislation.

One aim of the Patent Box legislation is to provide an additional incentive to locate in the UK high-value jobs associated with the development and exploitation of patented technologies. To achieve this the Patent Box legislation allows companies to pay a lower rate of UK corporation tax for profit attributable to qualifying patented technology.

Obtaining Patents for Software

The major requirement to benefit from the Patent Box legislation is to have a patent directed to an aspect of your software. Some parts of the software industry have not seen value in obtaining patent protection for its innovations. Reasons for this include the fact that the software industry is fast moving so that patent protection for small innovations may be of limited value and that copyright provides sufficient protection. With the advent of the Patent Box the value of patent protection for a software invention is significantly increased due to the reduction in UK corporation tax which could be achieved.

There is also a perception in the software industry that software cannot be patented in Europe but this perception is not correct. For certain types of development software-related inventions are routinely patented in Europe. Indeed, the requirement for R&D activities to qualify for R&D tax credits (that the activities seek the resolution of scientific or technological uncertainty) is similar to the European Patent Office's requirement for a software invention to provide a technical contribution or a technical solution to a technical problem.

An example of a patentable software invention comes from the HTC v Apple litigation in the UK. The Court of Appeal found that dividing up a touch screen of a device into separate views and configuring each view as a multi-touch view (for example enabling use of two fingers to zoom in) or a single-touch view (for example double tapping to zoom in) using flags with a specific functionality solved a technical problem (how to deal with multiple simultaneous touches on one of the new multi-touch devices) in a technical way. The invention was therefore not excluded from patentability even though the solution is embodied in software. The Judge noted that "the device is in a real practical sense, an improved device. This is not because it now runs different application programs but because it is, as a device, easier for programmers to use".

How Does Your Commercial Offering Affect the Possible Benefit from the Patent Box?

Assuming you have patented some aspect of your technology, the

Patent Box legislation allows all income from sale of certain items related to the patented technology (Head 1) and any licence fee or royalty under an agreement granting a right in respect of a patent (Head 2) to be included in the calculation for saving in UK corporation tax. Of less benefit is the ability to include a notional royalty (e.g. a certain percentage equivalent to a royalty of any income) in the calculation for saving in UK corporation tax if the income does not fall under Head 1 or 2.

HMRC guidance makes it clear that sale of software, including by way of downloading over the internet, is sale of a patented item under the Patent Box legislation (i.e. Head 1). The guidance also states that income from updates to the patented software, even if the updates are not related to the invention, can also be included in the calculation for saving in UK corporation tax.

Clarification has also issued which may be relevant to licence agreements between a software developers and distributors. Companies involved in such agreements and seeking to benefit from the Patent Box are advised to seek specialist advice regarding the nature of any such agreements in order to maximise the benefit of the Patent Box legislation (to try and ensure that as much income as possible falls under Heads 1 and 2).

How your service is supplied will also have a bearing on the likely benefit you will be able to get from the Patent Box. For example, the income made by a software company from running patented software on behalf of a client does not fall under Head 1 and 2 and so only a percentage of the income (calculated on the basis of a notional royalty) can be included in the calculation for saving in UK corporation tax. On the other hand, all the income a company makes from licensing a client to run software on servers owned or controlled by the company to which the end-users have access can be included in the calculation for saving in UK corporation tax (under Head 2).

When there is a choice software companies may wish to consider how they supply their services to the end user in order to maximise the possible benefit from the Patent Box.

What Inventions are Worth Protecting?

To maximise the corporation tax saving, as much income as possible should be under Head 1 or Head 2. A patent for Patent Box purposes will provide the greatest scope for placing income under Head 1 or Head 2 if there is a claim in the patent directed to a computer program (as opposed to just claiming a method, for example). This is because this is the type of claim HMRC recognises as covering the sale of software.

Importantly, however insignificant the invention is in terms of the overall function of the software, all income from the sale of the software (Head 1) or licensing of the software (Head 2) can be included in the calculation for reducing UK corporation tax. So in

the case where income generated falls under Head 1 or Head 2, a patent to a relatively minor invention in the software can result in a very large saving in the UK corporation tax.

On the other hand, if the income does not fall under Heads 1 or 2 (and is not related to transfer of patent ownership or patent litigation), then the only way to get that income into the Patent Box calculation for UK corporation tax saving is by way of claiming a notional royalty. In such circumstances patents to relatively minor inventions incorporated in the software will be less valuable for Patent Box purposes as the notional royalty percentage will be much smaller than for patents which protect the overall function of the software or an important function of the software.

How to Proceed

For more information, please contact:

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Patenting software in Europe is a specialist task. In many cases we advise companies to seek protection through the European Patent Office (EPO) rather than through the UK Intellectual Property Office (UKIPO). A patent granted by the EPO can be used to claim the benefit of the Patent Box. We advise using the EPO because even though both offices interpret the same law, the approach taken by the EPO is often more software industry-friendly than that of the UKIPO.

We have vast experience of handling software applications in Europe and can help you in devising a strategy to take maximum advantage of the Patent Box legislation including advice on which features of software might be patentable and on advising how best to offer your services to the end-user to ensure maximum benefit from the Patent Box legislation.