

STUDY TEXT For exams in June 2017, September 2017, December 2017 and March 2018

Chapter 10 Section 2.3.4 Question Claudia

In the answer to this question, Claudia's income tax liability under the remittance basis should be:

£32,000 × 20%	£ 6,400
£1,000 × 40%	<u>400</u>
	<u>6,800</u>

Chapter 20 Section 4.5.2 Operation of the patent box

Replace section with the following:

The first task is to determine the patent profit. This figure is then subject to a number of deductions in order to arrive at the net patent profit.

Exam focus point

You will not be required to calculate the patent profit or to apply the necessary deductions: the net patent profit will be provided in the exam question.

The reduced rate of tax is arrived at by deducting an amount from the company's taxable profits such that when the corporation tax rate is applied to the reduced figure, the effective rate is 10% on the patent profits.

In FY 2016 only 90% of the profit within the patent box is taxed at the 10% rate, so the deduction is calculated as follows:

$$\text{Net patent profit} \times 90\% \times \frac{(\text{MR} - 10\%)}{\text{MR}}$$

where MR is the main rate of corporation tax. The main rate of corporation tax in financial year 2016 is 20%.

Exam focus point

The basic formula will be provided in the Tax rates and Allowances available in the exam. You will be provided with the appropriate percentage to apply to the net patent profit if required in a question.



Question

Patent box

Blue plc prepares accounts to 31 March each year. In the year ending 31 March 2017, it had taxable total profits (before the patent box adjustment) of £1,800,000, of which the net patent profit was £220,000. Calculate the corporation tax liability of Blue plc for the year ending 31 March 2017 assuming that it makes a patent box election. The relevant percentage for FY 2016 is 90%.

Answer

Profit other than net patent profit $\pounds(1,800,000 - 220,000)$	£	£
Net patent profit	220,000	1,580,000
Less Deduction in respect of patent profit		
$\pounds 220,000 \times 90\% \times \frac{(20\% - 10\%)}{20\%}$	<u>(99,000)</u>	
Taxable total profits		<u>121,000</u>
Corporation tax liability $\pounds 1,701,000 \times 20\%$		<u>340,200</u>

Note. The corporation liability can be analysed as follows.

Net patent profit @ 10%	£
$\pounds(220,000 \times 90\%) = \pounds 198,000 \times 10\%$	19,800
Balance of taxable profits	
$\pounds(1,800,000 - 198,000) = \pounds 1,602,000 \times 20\%$	<u>320,400</u>
Corporation tax liability	<u>340,200</u>
