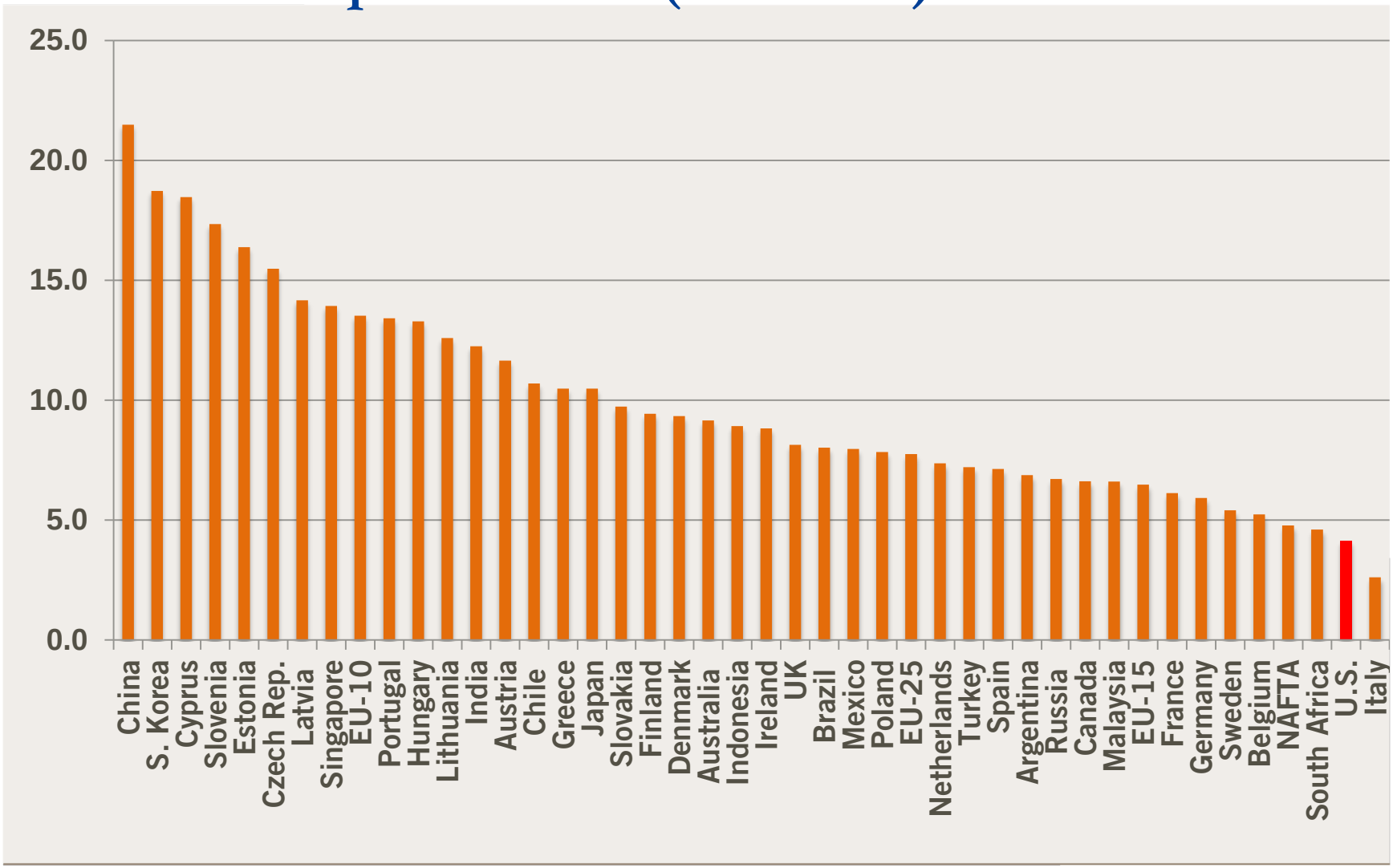
October 4, 2011

Patent Boxes: Innovation in Tax Policy and Tax Policy for Innovation

Rob Atkinson, President, ITIF

U.S. Ranks 43rd in Rate of Progress on Innovation-Based Competitiveness (1999-2011)

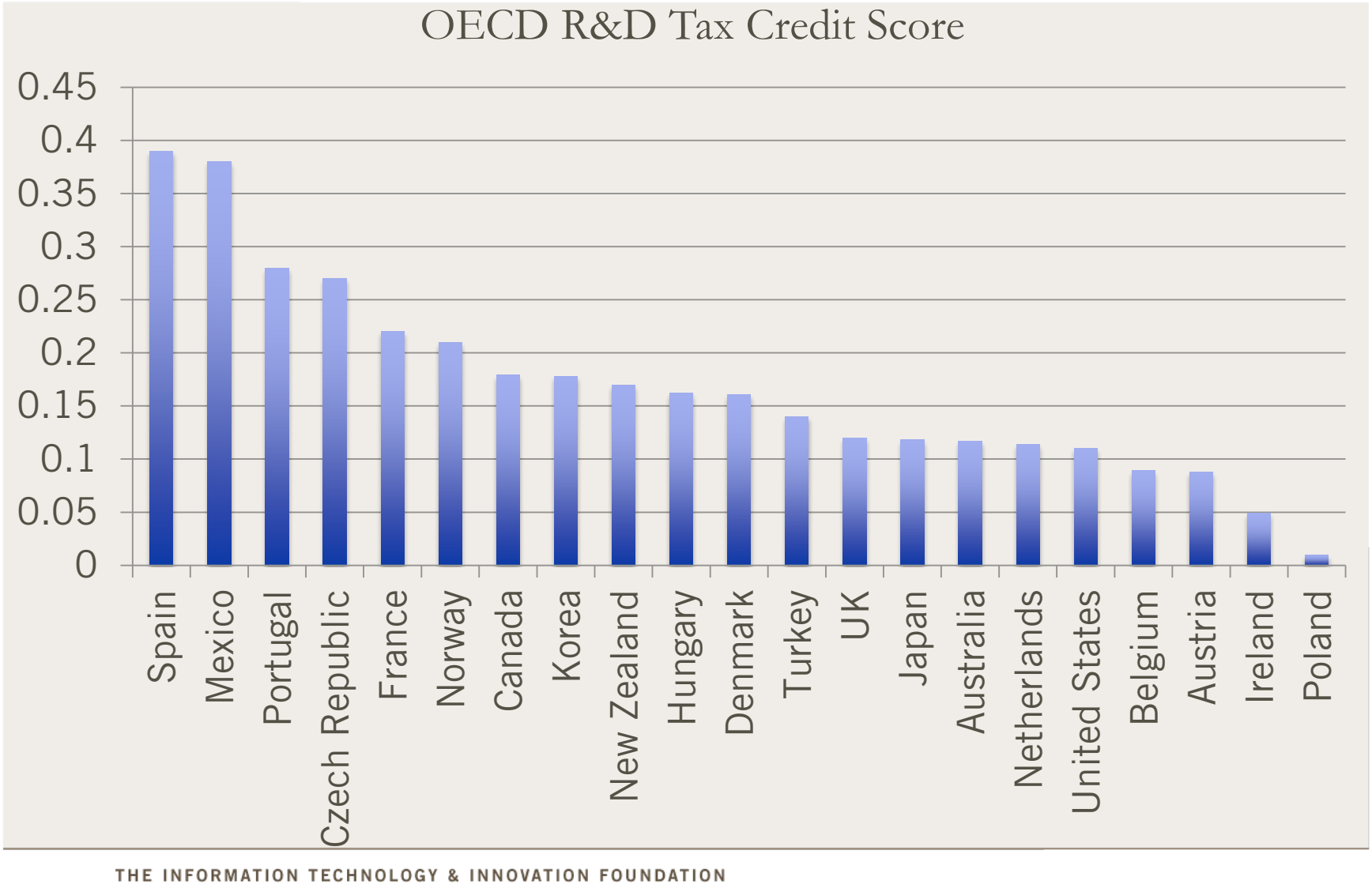


Tax Policy is a Key in the New Race for Global Innovation Advantage

- Corporate tax rates for OECD nations have declined from nearly 50 percent in the mid-1980s to less than 30 percent in 2009, while the combined federal-state rate has remained at about 39 percent.

- U.S. R&D tax credit was the most generous in the OECD in 1992, and is now the 17th most generous.

The U.S. ranks 17th of 30 for R&D tax generosity



THE INFORMATION TECHNOLOGY & INNOVATION FOUNDATION

Source: OECD

Patent Boxes: The Latest Tool

- Patent boxes allow corporate income from the sale of patented products to be taxed at a lower rate than other income.

- Within the last several years, 8 nations (7 in Europe) have enacted patent box regimes that incentivize firms to patent or produce other related innovations.

Patent Boxes: the Latest Tool

Country	Year Enacted
Belgium	2008
China	2008
France	2005
Ireland	1973
Luxembourg	2008
The Netherlands	2007
Spain	2008
Switzerland	N/A

Patent Boxes: The Latest Tool

Country	Regular Corporate Tax Rate	Patent Box Rate	Qualifying Income
Belgium	20%	6.8%	Patents and supplementary protection certificates
China	16%	0-12.5%	Registered patents and know-how
France	34%	15%	Patents and supplementary protection certificates
Ireland	10%	<10%	Most IP
Luxembourg	17%	5.9%	Software, copyrights, patents, trademarks, designs, or models
The Netherlands	17%	5%	Patents or IP from qualifying and approved R&D
Spain	25%	15%	Most IP
Switzerland	21%	0-12%	Most IP

The Economic Theory Behind Patent Boxes

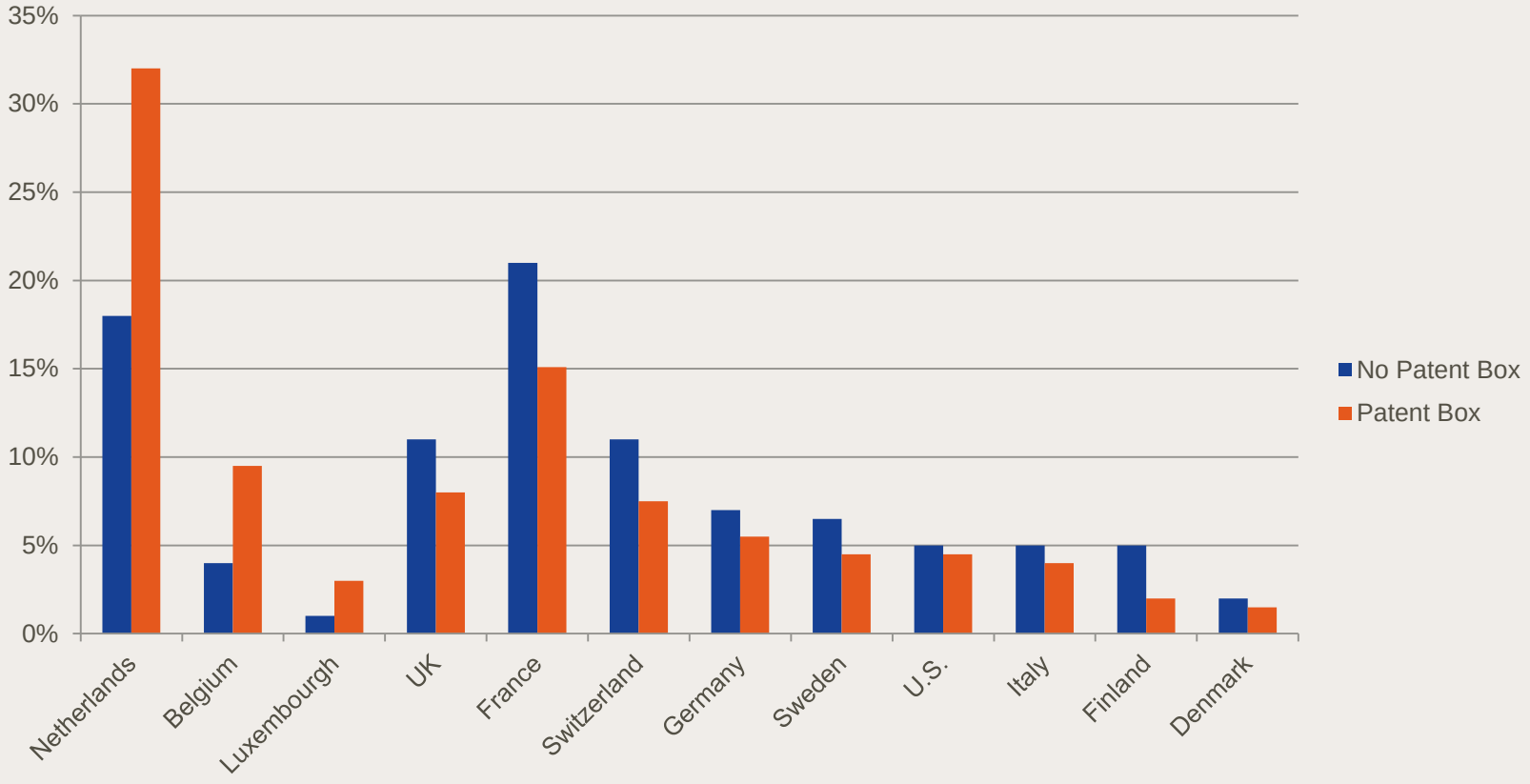
- Market Failures
  - Spillovers
  - Risk
- Globally Competitive Corporate Tax Code
  - Taxation of mobile vs. immobile activities

Effectiveness of Patent Boxes

- Limited Data Makes Evaluation Difficult

Effectiveness of Patent Boxes

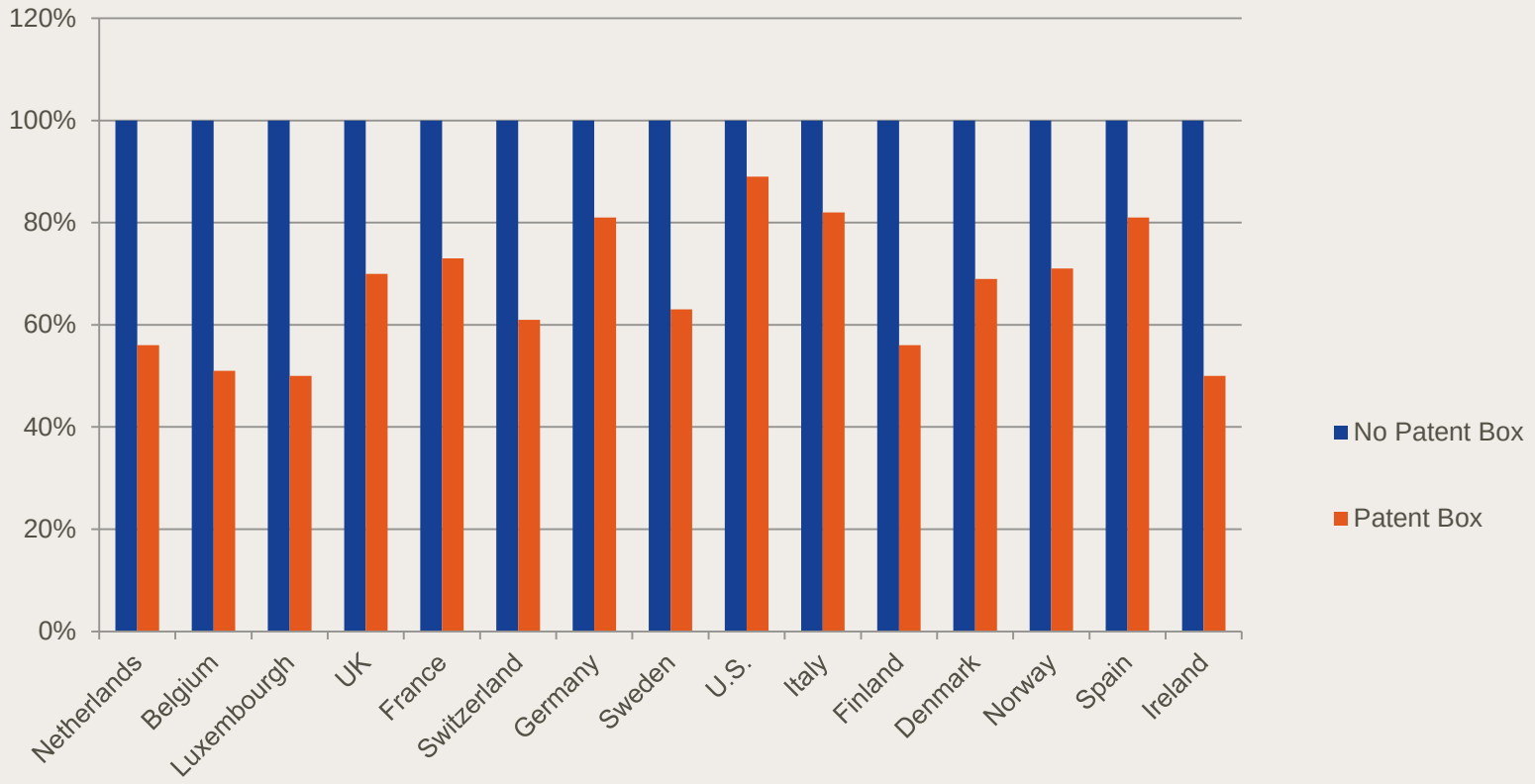
- Patent boxes do appear to induce more patent income



Source: Rachel Griffith, Helen Miller and Martin O'Connell, 2010

Effectiveness of Patent Boxes

- But not more tax revenues (at least in the short term)



Source: Rachel Griffith, Helen Miller and Martin O'Connell, 2010

Would Patent Boxes be More Effective if They Were Redesigned?

- European design limitation: incentive is not tied to performance of R&D or production domestically.

Issues in the Design of a U.S. Patent Box

- Rate

Issues in the Design of a U.S. Patent Box

- Rate
- **Eligible Activity**

Issues in the Design of a U.S. Patent Box

- Rate
- Eligible Activity
- **Link to R&D and Production**

Issues in the Design of a U.S. Patent Box

- Rate
- Eligible Activity
- Link to R&D and Production
- **Income from Patents Under Review**

Conclusion

- The United States Would Benefit from an Appropriately Designed Patent Box

Thank You

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