



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER  
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

# Cost Estimate of Election Campaign Proposal

Publication Date: September 2021

Short Title: Patent Box

Description: Introducing a Patent Box to reduce the corporate income tax rate by half to 7.5% for large corporations and to 4.5% for small businesses. This would be applied to profits generated from research and development (R&D) that was developed and patented in Canada, beginning in 2022.

Cost of Proposed Measure:	\$ millions	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	Total
Total cost		5	25	46	70	96	242

Notes:

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a reduction in the budgetary balance (lower revenues or higher spending). A negative number implies an increase in the budgetary balance (higher revenues or lower spending).
- "-" = PBO does not expect a financial cost.

Estimation and projection method: PBO used historical revenue losses under the UK Patent Box regime and projected revenue losses forward using growth rates for corporate profits from its EPC baseline.

PBO accounted for differences in the change in tax rates between the two countries, the ratio of large and small businesses who benefited under the UK regime and phase-in rates. In addition, only the cost of new patents (represented by the incremental change in revenue losses year over year) was considered.

Source of Uncertainty: The main sources of uncertainty relate to the adjustments made to the UK regime data to account for differences in their policy structure and the timing between patent approval and profitability (PBO assumed no delays).

There is also uncertainty surrounding the interaction of increased R&D expenditures and claims for the scientific research and experimental development (SR&ED) tax incentive. PBO did not estimate the cost of any additional SR&ED claims or costs due to profit shifting behaviour.

Data Sources:	Variable	Source
	Revenue Losses from the UK Patent Box regime	Her Majesty's Revenue & Customs (HMRC)
	UK Patent Box data by company size	Her Majesty's Revenue & Customs (HMRC)

Number of patents filed in the UK and Canada World Intellectual Property Organization

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Growth rates of Corporate Profits

2021 Election Proposal Costing Baseline

Exchange rate information

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