

## Election Proposal Costing

# Implementing a patent box regime

April 19, 2025

Implementing a patent box regime to reduce the corporate income tax rate by half for both large corporations and small businesses. This would be applied to profits generated from new research and development (R&D) that was developed and patented in Canada, effective July 1, 2025.

### Cost of Proposed Measure

Fiscal year	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Total
<b>Total cost</b> \$ millions	11	33	59	90	128	320

### Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.

### Estimation and Projection Method

PBO used historical revenue losses under the UK patent box regime and total corporation tax revenues in the UK to calculate the percentage of revenue lost under the regime and applied it to corporate income tax revenues in Canada. PBO projected these revenue losses forward using the growth rates for corporate income tax from its EPC baseline, after adjusting for the 50% capital gains inclusion rate.

PBO accounted for differences in the change in tax rates and patent grants between the two countries, the ratio of large and small businesses who benefited under the UK regime and applied similar phase-in rates as those used in the UK (60% of profits eligible in year 1, increasing to 100% in year 5). An adjustment was then made to reflect only the cost for new patents.

### Sources 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, timing between patent approval and profitability (PBO assumed no delays), and the percentage of foregone revenue attributable to only new patents.

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 or other tax credits. PBO did not estimate the cost of any additional SR&ED claims or tax credits or costs due to profit shifting behaviour.

## Data Sources

### **UK patent box regime data**

Her Majesty's Revenue & Customs (HMRC)

### **UK corporation tax data**

Office for National Statistics

### **Number of patents filed in the UK and Canada**

World Intellectual Property Organization

### **Corporate income tax data for Canada**

PBO EPC Baseline

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