WHAT IS AN "INNOVATION BOX"? WHY SHOULD BUSINESSES CARE?

SHARE

In recent months, there has been a lot of talk on Capitol Hill about attaching an "innovation box" regime—along with an international tax "modernization" package—to a long-term highway funding bill this fall. The general concept, which has some bipartisan support, is that revenue raised by a deemed repatriation of untaxed foreign earnings of U.S. companies could be used to fund highway spending, while enhancing incentives for innovation and overhauling international tax rules could address some immediate concerns about U.S. competitiveness while serving as a step towards more expansive tax reform in the future.

10 September 2015

The following discussion answers some commonly asked questions about an innovation box and explains why businesses should be interested in the innovation box "draft proposal" that was released in July 2015 by two senior members of the Ways and Means Committee, Rep. Charles Boustany (R-TX) and Rep. Richard Neal (D-MA).

- What is a patent or innovation box?
- Why are some members of Congress talking about enacting a U.S. innovation box?
- What is the "draft proposal" of Reps. Boustany and Neal?
- How would the amount of of the draft proposal's innovation incentive be computed?
- Would the draft proposal's innovation incentive be available to corporations that don't have any international operations?
- Would the draft proposal's innovation inventive be available to S corporations and partnerships (including C corporation joint ventures)?
- Would the draft proposal's innovation incentive apply to service income?
- Would the draft proposal change the R&D credit, the section 199 deduction or section 174?
- How much would an innovation box cost the government?
- How might the cost of implementing an innovation box be offset?
- Does the draft proposal include provisions in addition to an innovation box?
- Might the draft proposal be modified, going forward?
- Is it likely that the draft proposal would become law this year?
- What should businesses be thinking about, and doing now?

WHAT IS A PATENT OR INNOVATION BOX?

An innovation box refers to a law that provides favorable tax treatment (typically a reduced rate of tax) on certain kinds of income from innovation-related intangibles. The legislation can define what kinds of intangibles and what amounts of income are subject to favorable tax treatment, and how the favorable tax treatment is implemented. Thus, the technical details of an innovation box can vary. In some foreign countries, a taxpayer might check a box to indicate that it is taking advantage of preferential tax rules for income attributable to innovation—hence, the term "innovation box." However, U.S. lawmakers tend to use the term "innovation box" broadly to encompass providing favorable incentives for innovation in the United States, regardless of whether any kind of election by the taxpayer ultimately may be involved.

RELATED CONTENT

EURO TAX FLASH FROM KPMG'S EU TAX CENTRE

Euro Tax Flash from KPMG's EU Tax Centre

READ MORE

FATCA: IGA SIGNED WITH MONTSERRAT

The IGA between the United States and Montserrat was signed on 8 September 2015

READ MORE

Christopher Stirling | United

CONNECT WITH US

FIND OFFICE LOCATIONS

EMAIL US

SOCIAL MEDIA @ KPMG

REQUEST FOR PROPOSAL

SUBMIT

KPMG'S NEW DIGITAL PLATFORM

KPMG International has created a state of the art digital platform that enhances your experience, optimized to discover new and related content.

READ MORE

THE FUTURE OF THE MEDICAL DEVICE INDUSTRY

Medical device companies need to review their traditional approaches to innovation...

READ MORE

A patent box is a type of innovation box that provides preferential treatment mainly to income from legally protected intellectual property. That is, a patent box may be "narrower" than an innovation box.

WHY ARE SOME MEMBERS OF CONGRESS TALKING ABOUT ENACTING A U.S. INNOVATION BOX?

Some lawmakers are concerned that action by certain European countries with respect to their patent box regimes may result in the migration of technology jobs overseas. These concerns have been heightened by the OECD base erosion and profits shifting (BEPS) project.

For example, as part of the BEPS project, consensus was reached that businesses should be able to participate in innovation box regimes only to the extent that the business activities that gave rise to intangibles income (such as research activities) were substantially performed in the country providing the incentive. In a report issued by the International Tax Bipartisan Tax Working Group of the Senate Finance Committee, the co-chairs of that group, Sen. Rob Portman (R-OH) and Sen. Chuck Schumer (D-NY), agreed that "…the anticipated impact of the new nexus requirements on innovation box regimes will have a significant detrimental impact on the creation and maintenance of intellectual property in the United States, as well as on the associated domestic manufacturing sector, jobs, and revenue base." As a result, they concluded that "…we must take legislative action soon to combat the efforts of other countries to attract highly mobile U.S. corporate income through the implementation of our own innovation box regime that encourages the development and ownership of [intellectual property] in the United States, along with associated domestic manufacturing."

Rep. Paul Ryan (R-WI), the Chairman of the House Ways and Means Committee, similarly indicated that innovation box legislation could "…allow American businesses to better compete with foreign companies and keep their research and development facilities here in the U.S." Chairman Ryan has also indicated that implementing an innovation box is an important piece of international tax reform.

WHAT IS THE "DRAFT PROPOSAL"?

On July 29, two senior members of the Ways and Means Committee—Rep. Charles Boustany (R-TX) and Rep. Richard Neal (D-MA)—released for public comment the following documents regarding an innovation box proposal:

- A draft proposal [PDF 69 KB]
- A technical explanation [PDF 150 KB]
- A request for feedback [PDF 245 KB]

The draft proposal generally would provide some corporations with a new deduction for a percent of "innovation box profits." The deduction is intended to lower the income tax rates on those profits.

Reps. Boustany and Neal have made clear that the "draft proposal" is just a discussion draft and have requested input on particular issues. Thus, it is quite possible that details of the draft proposal will be modified. However, it also appears likely that Chairman Ryan will look to the draft proposal as a starting point in determining what to include in any innovation incentives he might release as part of a larger bill this fall.

It is worth noting that, in the Senate, the Finance Committee's International Tax Working Group report indicates that the co-chairs of that group are continuing to work to "…determine appropriate eligibility criteria for covered IP, a nexus standard that incentivizes U.S. research, manufacturing, and production, as well as a mechanism for the domestication of currently offshore IP." None of the members of the working group, however, has released a detailed innovation box proposal. Thus, it is not clear to what extent members of the Senate Finance Committee would design an innovation box in the same

manner as reflected in the draft proposal.

HOW WOULD THE AMOUNT OF THE DRAFT PROPOSAL'S INNOVATION INCENTIVE BE COMPUTED?

Very generally, the draft proposal would provide a deduction to a C corporation equal to 71% of an amount determined by reference to: (1) a formulaically determined amount called "innovation box profit" or (2) taxable income. As a result of this proposed new deduction, the effective top corporate tax rate on qualifying income would be around 10%.

More specifically, the draft proposal would add a new section 250 to Part VIII of subchapter B of Chapter 1 of the Internal Revenue Code of 1986—the part of the Code that provides special deductions for corporations. New section 250 would provide that, in the case of a corporation, a deduction would be allowed equal to 71% of the lesser of (1) the "innovation box profit," or (2) taxable income (determined without regard to new section 250) for the tax year. Thus, a corporation could not reduce its tax rate to below the approximate 10% rate by using new section 250, when its taxable income would be less than its innovation box profit. No deduction at all would be allowed if the corporation did not have any taxable income for the tax year. Further, the deduction could not be taken into account in computing any net operating loss (NOL) or the amount of any operating loss carryback or carryover.

WHAT IS "INNOVATION BOX PROFIT"?

A corporation's "innovation box profit" for a tax year would equal the product of :(1) its "tentative innovation profit" for the tax year ("tentative innovation profit") and (2) a fraction, referred to by one author (Martin A. Sullivan in an August 2015 article) as the "research intensity factor."

For purposes of computing innovation box profit, all members of an "expanded affiliated group" would be treated as a single corporation and the deduction would be allocated among group members based on each member's amount of innovation box profit.

WHAT IS "TENTATIVE INNOVATION PROFIT"?

A corporation's "tentative innovation profit" with respect to a tax year generally would equal:

- The corporation's gross receipts for the tax year derived from selling, leasing, licensing, or otherwise disposing of certain "qualified property" in the ordinary course of a U.S. trade or business of the corporation (not taking into account certain related-party sales),[1] **minus**
- The taxpayer's cost of goods (COGS) sold for the tax year properly allocable to such gross receipts, **minus**
- Other expenses, losses, and deductions (other than the new section 250 deduction) properly allocable to such gross receipts.

1 Gross receipts generally would include only gross receipts from sales to an unrelated person. However, if products produced using qualified property were sold to a related person outside the United States, and resold to an unrelated person outside the United States, gross receipts from the initial sale would be qualified gross receipts. The draft proposal does not explain how taxpayers would track these resales and associate them with earlier gross receipts.

For this purpose, the draft proposal generally defines "qualified property" as any: (1) patent, invention, formula, process, design, pattern, or know-how (i.e., property described in section 936(h)(3)(B)(i)); (2) motion picture film or video tape (i.e., property described in section 168(f)(3)); (3) computer software (as defined in section 197(e)(3)(B)); and (4) **any product produced using any patent, invention, formula, process, design, pattern, or know-how** described above.

Thus, the definition of qualified property is quite broad.

The draft proposal (proposed new section 250) also would provide for

the Treasury Secretary to prescribe rules for the proper allocation of items in determining the "tentative innovation profit"—including rules providing "for the proper allocation of items whether or not such items are directly allocable to qualified gross receipts."

WHAT IS THE "RESEARCH INTENSITY FACTOR"?

Under the draft proposal, the "research intensity factor" would be determined by dividing: (1) the taxpayer's expenditures for research and development performed in the United States for the five-tax-year period ending with the tax year;[2] by (2) the taxpayer's total "costs" paid or incurred for that same five-year period, excluding cost of goods sold, interest, and taxes ("five-year total costs").[3]

2 For this purpose, "five-year research and development expenditures" would be those expenditures for which a deduction is allowed under section 174 (determined without regard to sections 41 and 280C(c)).

3 The term "cost" is not further defined. However, the five-year-total-costs would not include research expenditures for testing conducted outside of the United States if such testing were conducted outside the United States because: (1) there is an insufficient testing population in the United States; or (2) testing outside the United States is required by law.

Note that only expenditures for research and development performed in the United States are included in the numerator of this fraction. Thus, a corporation that does not perform any research and development activities in the United States would have a research intensity factor of zero and an innovation box profit of zero—and, therefore, would not qualify for any deduction under new section 250. This is consistent with the intent to encourage development of intellectual property in the United States and to discourage the migration of technology jobs overseas.

HOW WOULD THESE DEFINITIONS AFFECT THE AMOUNT OF THE DEDUCTION?

Based on the questions and answers above, highly simplified, the formula for determining the amount of the deduction for a C corporation that has taxable income in excess of innovation box profit generally would be:

0.71 x [gross receipts from qualified property – allocable COGS & expenses]

x <u>5 Year US Research Costs</u>

5 Year Total Costs

As a result, as a general matter, the size of the corporation's deduction would be relatively larger as the amount of gross receipts from qualified property increased or as the amount of expense allocable to such gross receipts decreased.

Likewise, the size of the deduction would be relatively larger the higher the taxpayer's domestic research costs over the five-year period are compared to its overall costs (excluding COGS, interest, and taxes) for that period. However, as explained above, no deduction would be available to the extent the taxpayer has no taxable income or tentative innovation box profit for the tax year or has no domestic research activities for the five-year period ending with the tax year.

An appendix [PDF 73 KB] to this report includes a simplified chart illustrating how changes in facts and assumptions can change the amount of the deduction.

WOULD THE DRAFT PROPOSAL'S INNOVATION INCENTIVE BE AVAILABLE TO CORPORATIONS THAT DON'T HAVE ANY INTERNATIONAL OPERATIONS?

Yes. Even though some members of Congress have been discussing innovation boxes in the context of international tax reform, the draft proposal is not targeted to corporations with multi-national operations. Instead, a corporation could benefit from the draft proposal's deduction even if all its operations are in the United States. Thus, even corporations with purely domestic operations would be interested in what happens with innovation box legislation.

WOULD THE DRAFT PROPOSAL'S INNOVATION INCENTIVE BE AVAILABLE TO START-UPS?

Most start-ups likely would not be able to benefit much (if at all) from the deduction described in the draft proposal because they do not have much (if any) taxable income in their initial years. As indicated above, if a corporation does not have taxable income, the amount of its deduction for innovation box profits would be zero. Further, the draft proposal would not allow innovation box deductions to be carried forward or back as part of an NOL.

WOULD THE DRAFT PROPOSAL'S INNOVATION INCENTIVE BE AVAILABLE TO S CORPORATIONS AND PARTNERSHIPS (INCLUDING C CORPORATION JOINT VENTURES)?

S corporations likely would not qualify for the draft proposal's deduction. Although an S corporation is a corporation, it is required to compute its income using rules applicable to individuals, rather than those applicable to corporations, and the Draft Proposal's deduction is not available for individuals.[4]

Partnerships also likely would not qualify for the deduction described in the draft proposal. Like S corporations, they generally compute taxable income at the entity level in the same manner as in the case of an individual (subject to specific rules regarding separately stating certain items), and flow distributive shares of items through to their owners. Even in the case of a joint venture among C corporation partners, it appears possible that neither the partnership nor the C corporation partners might be able to benefit from the draft proposal's innovation deduction. Instead, C corporations might need to conduct their domestic research and development—and to generate innovation box profit—outside of a partnership to benefit from the deduction.

4 The part of the Code to which new section 250 would be added ("Special Deductions for Corporations") includes provisions like the section 243 corporate dividends received deduction. Because section 1363(b) generally requires an S corporation to compute its income in the same manner as an individual, an S corporation is not allowed to take the dividends received deduction. See, e.g., H.R. Rep. No. 737, 104th Cong., 2d Sess 227 (1996).

WOULD THE DRAFT PROPOSAL'S INNOVATION INCENTIVE APPLY TO SERVICE INCOME?

As was explained above, under the draft proposal, a corporation's tentative innovation profit would take into account gross receipts from selling, leasing, licensing, or otherwise disposing of any **product** produced using patents, inventions, formulae, processes, designs, patterns, or know-how (or from disposing of the property itself). The draft proposal does not define "product." However, the use of that term suggests that the draft proposal might not apply to gross receipts from selling services. Reps. Boustany and Neal have specifically requested feedback regarding to what extent gross receipts from services that are directly related to a product that uses qualified property is to be included in the determination of qualified gross receipts.

WOULD THE DRAFT PROPOSAL CHANGE THE R&D CREDIT, THE SECTION 199 DEDUCTION, OR SECTION

174?

As currently drafted, the draft proposal does not modify the rules regarding the research and development (R&D) credit, the section 199 domestic manufacturing deduction, or the section 174 rules regarding specified research and experimentation (R&E) expenditures. However, as indicated below, Reps. Boustany and Neal have requested feedback as to how the R&D credit and the section 199 rules could be coordinated with the innovation box rules. Further, as indicated below, it is possible that, to offset revenue loss associated with the innovation box regime, the ability to deduct specified R&E expenditures currently under section 174 might be repealed.

HOW MUCH WOULD AN INNOVATION BOX COST THE GOVERNMENT?

An estimate of the revenue costs associated with the draft proposal has not been released yet. Thus, it is not clear how much revenue the government would lose by providing the new innovation deduction. Nonetheless, the revenue estimate for the draft proposal could be substantial (even if macroeconomic effects are taken into account). Keep in mind that the revenue loss associated with an innovation box likely could be modified by changing the percent of qualifying income that is deductible (i.e., the “depth” of the box) or the specifications regarding the income and qualified property taken into account (i.e., the “width” and “length” of the box). Thus, some of the features of an innovation box proposal could be modified to meet revenue goals. As is discussed below, it is also possible that other tax law changes might be considered to offset the costs of an innovation box.

HOW MIGHT THE COST OF IMPLEMENTING AN INNOVATION BOX BE OFFSET?

Reportedly, Chairman Ryan may be looking at modifying section 174 to repeal the ability to deduct immediately specified R&E expenditures, such that those expenditures instead would have to be capitalized and amortized over a five-year period.

Last Congress, Rep. Camp (the then-chair of the Ways and Means Committee) included such a proposal in the tax reform bill he introduced; and the Joint Committee on Taxation (JCT) estimated that, in the context of that reform bill, the section 174 proposal would raise approximately $192.6 billion.

Keep in mind that modifying section 174, so as to require R&E expenditures to be capitalized, might affect some businesses that might not benefit from an innovation box regime (e.g., certain businesses conducted through passthrough entities). Also keep in mind that other business revenue raisers also might come into play. Thus, apart from considering the details of innovation box provisions, businesses may want to monitor developments regarding potential revenue offsets.

DOES THE DRAFT PROPOSAL INCLUDE PROVISIONS IN ADDITION TO AN INNOVATION BOX?

In addition to providing an innovation box, the draft proposal generally would provide that a controlled foreign corporation (CFC) could distribute appreciated intangible property assets to a domestic corporation that is a U.S. shareholder with respect to such CFC, pursuant to a “qualified plan,” without triggering taxable income, provided that certain requirements were met. It appears that this provision is intended to encourage domestication of intangible property. Read text of the draft proposal and technical explanation for more detail on this aspect.

MIGHT THE DRAFT PROPOSAL BE MODIFIED GOING FORWARD?

As indicated above, Reps. Boustany and Neal have made clear that the draft proposal is a discussion draft, and that they are looking for public input. Thus, it is possible that the technical details could be modified to reflect comments provided regarding the proposal or to reach certain revenue, policy, or political goals.

Further, keep in mind that Reps. Boustany and Neal requested feedback on the following specific issues:

- Does the draft proposal address the appropriate scope of intellectual property that should qualify for the deduction?
- To what extent should gross receipts from **services** that are directly related to a product that uses qualified property be included in the determination of qualified gross receipts?
- Are there other costs or expenditures that relate to innovation and that, therefore, should be included in the numerator of the research intensity factor? Can those costs be defined in a manner that limits potential abuse?
- What would be the appropriate approach for determining expenses properly allocable to innovation profits? Should the proposal just include authority for the Treasury Secretary to adopt allocation rules, or is more specific guidance necessary?
- Are there modifications that could be made to minimize the compliance burdens on taxpayers and improve the administrability of the proposed regime?
- How should the deduction for innovation profits be coordinated with the R&D credit under section 41 and the manufacturing deduction under section 199?
- Are there particular transition rules that would be necessary to implement the deduction for innovation box profits and the special rules for transfers of intangible property from CFCs to U.S. shareholders?
- Does the draft proposal "help your company remain competitive in the global marketplace, relative to your foreign counterparts"?

IS IT LIKELY THAT THE DRAFT PROPOSAL WILL BECOME LAW THIS YEAR?

Enacting innovation box legislation this year will be difficult. As explained above, discussions about enacting innovation box legislation this year have centered on attaching such legislation to a long-term highway funding measure, along with deemed repatriation of offshore earnings of multinationals and an international tax modernization package. However, such an approach raises a number of issues. For example:

- There is not much time left on the congressional calendar and Congress already has a busy schedule for the remainder of the year (including passing legislation to fund the government and potentially to increase the "debt limit").
- Given that next year is an election year, some members of Congress may be reluctant to vote on a significant tax bill that includes controversial revenue raisers or that is not perceived as helping individuals or small ("Main Street") businesses.
- Some members of Congress may be reluctant to vote on using tax revenues from deemed repatriation to fund highway spending, both because some have pledged not to increase taxes to offset spending and because some may be concerned as to how using tax revenues to fund highways could factor into negotiations regarding non-defense spending levels more generally.
- Although some key players in the Senate support modernizing the international tax rules and providing enhanced innovation incentives as a general matter, they have expressed concern about attaching those measures to a highway funding bill.
- Putting together the international tax modernization component of a larger bill itself raises challenging issues. Read TaxNewsFlash-

- Some parts of the domestic business community may be concerned that, if an international tax modernization package is enacted, much of the impetus for broader tax reform may dissipate.

Moreover, even if these issues could be surmounted, finalizing and enacting an innovation box regime itself likely would face challenges. For example:

- At this time, it is not clear whether the Obama Administration supports an innovation box proposal.
- Some economists have expressed concerns about implementing U.S. innovation box legislation.
- Given the potential for an innovation box (and any revenue offsets) to affect different businesses differently, different aspects of the business community may have different views about the desirability of enacting such legislation, which could affect the political support for an innovation box.
- Although some of the political concerns possibly could be mitigated by expanding the availability of the benefits under an innovation box, such expansion could increase the revenue cost of an innovation box and might necessitate reducing the rate of the proposed new deduction or finding other revenue offsets.

Thus, enacting innovation box legislation this year appears to be a long shot. However, keep in mind that, even if innovation box legislation is not enacted this year, lawmakers are likely to pursue innovation box legislation in the future—particularly in light of concerns regarding European patent box regimes. And, any decisions that are made this year regarding the scope and design of such legislation might be hard to change in the future.

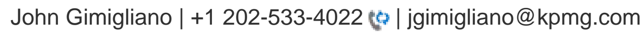
WHAT SHOULD BUSINESSES BE THINKING ABOUT, AND DOING, NOW?

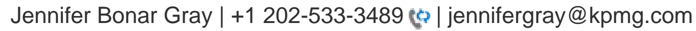
As explained above, innovation box legislation could benefit many C corporations, regardless of whether or not those corporations have multinational operations. However, under the draft proposal, the amount of the benefit for a particular corporation could vary depending on the particular facts, including the size of the research intensity factor, the level of innovation box profit, and the amount of taxable income. Further, some businesses might not benefit from the proposed new deduction at all, including, for example, partnerships, S corporations, and start-ups and other businesses with no taxable income.

Thus, as a threshold matter, businesses may want to assess how much of a benefit they could expect to receive under the draft proposal (both in isolation and vis-à-vis their competitors), taking into account their particular facts and projections. They also might want to quantify the expected impact (if any) of a potential repeal of the ability to immediately deduct R&E expenditures under section 174—and to stay tuned to legislative developments in the event other changes in tax law are raised as potential revenue offsets. In addition, businesses may want to consider the specific issues on which Reps. Boustany and Neal have requested feedback.

To the extent that businesses have views regarding the draft proposal (or innovation box legislation more generally) that they would like to convey to lawmakers, they may want to work with their industry or trade associations in expressing those views, or to communicate those views directly, to relevant decision makers. As explained above, even if a business does not believe that enactment of innovation box legislation in the near future is likely, keep in mind that work being done now on an innovation box regime potentially could serve as a cornerstone for future legislation and design details may be more settled and more difficult to change at that time.

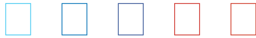
For more information, contact a member of KPMG's Washington National Tax (WNT) Federal Legislative and Regulatory Services group:





©2015 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG logo and name are trademarks of KPMG International. KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever. The information contained in herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation. For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at: + 1 202 533 4366, 1801 K Street NW, Washington, DC 20006.



© 2015 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

Legislative update: What is an "innovation box"? Why should businesses care?

Appendix

This chart provides a highly simplified illustration of how changes in various facts and assumptions could affect the amount of the deduction. Numbers relating to "bolded items" in the far left column were computed. Numbers relating to other items were assumed. All R&D expenses were assumed to be allocable to dispositions of qualified property. For sake of simplicity, facts and calculations relating to COGS, interest, and taxes were excluded.

	Base Case	**More QP Gross Receipts**	**Fewer Costs Allocable to QP**	**More US R&D**	**More US/Less Foreign R&D**	**Little Taxable Income**
Gross receipts from QP	100	200	100	100	100	100
Other gross income	100	100	100	100	100	0
Total income	200	300	200	200	200	100
U.S. R&D	20	20	20	30	40	20
Foreign R&D	20	20	20	20	0	20
Other costs allocable to QP	20	20	5	20	20	20
Total expenses allocable to QP	60	60	45	70	60	60
Other expenses	20	20	20	20	20	50
Total expenses	80	80	65	90	80	110
Taxable income	120	220	135	110	120	-10
5-year US Research Costs	100	100	100	150	200	100
5-year Total Costs	400	400	325	400	400	400
Tentative Innovation Profit *(gross receipts from QP - allocable costs)*	40	140	55	30	40	40

©2015 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. *All rights reserved.*

KPMG cutting through complexity

TaxNewsFlash UNITED STATES

Research Intensity Factor *(5-yr US Research/5-yr total costs)*	0.25	0.25	0.30769231	0.375	0.5	0.25
Innovation Box Profit *(Tent. Inn. Profit x Research Intensity)*	10	35	16.9230769	11.25	20	10
Lesser of Innovation Box Profit or Taxable Income	10	35	16.9230769	11.25	20	-10
Deduction	7.1	24.85	12.0153846	7.9875	14.2	0

Source: KPMG LLP

The information contained in *TaxNewsFlash* is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230, as the content of this document is issued for general informational purposes only, is intended to enhance the reader's knowledge on the matters addressed therein, and is not intended to be applied to any specific reader's particular set of facts. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever.

Direct comments, including requests for subscriptions, to mailto:US-KPMGWNT@kpmg.com. For more information, contact KPMG's Federal Tax Legislative and Regulatory Services Group at + 1 202.533.4366, 1801 K Street NW, Washington, DC 20006-1301.

To unsubscribe from TaxNewsFlash-United States, reply to mailto:US-KPMGWNT@kpmg.com.

Privacy | Legal

©2015 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. *All rights reserved.*