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13 August 2021

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By email
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We make the following submission in relation to the proposed Patent Box legislation.

Background

The following broad design features will form the basis of Australia's medical and biotechnology patent box: an effective concessional tax rate of 17 per cent for companies on eligible profits from eligible patented inventions; only inventions claimed in standard patents granted by IP Australia, which were applied for after the Budget announcement (that is, have a priority date after 11 May 2021), will be eligible; and the patent box will be designed to be consistent with the OECD/G20 Forum on Harmful Tax Practice (FHTP) framework governing IP regimes, including the OECD's Base Erosion and Profit Sharing (BEPS) Action 5 minimum standard. This includes that the concessional tax treatment will only apply to company profits from patented inventions in proportion to the amount of associated R&D that was conducted in Australia by the company.

The Australian Government will draw on approaches in comparable international jurisdictions with patent boxes to maximise effectiveness and minimise compliance burdens.

The scope of the Government's announcement relates to profits derived from inventions that would fall within the scope of Australian standard patents (including where the invention is protected by foreign patents). Standard patents are granted in Australia if there is sufficient evidence of the invention or process being new, inventive and useful. Standard patents provide protection in Australia for up to 20 years and up to 25 years for some pharmaceutical patents.

Submission

1. Concessional tax rate should apply from time of patent application

The concessional tax rate should apply to eligible income from the time of application of the relevant patent, not from when the patent is granted. The reason for this is that many years may elapse from the date of application to the date of grant of a patent, and the patent owner may generate income from the use of the patent for a number of years prior to official grant date.

2. Cater for patent applications which are never granted

In some cases, the patent application ultimately does not proceed to grant. To cater for this, we suggest the 17% tax rate be applied in retrospect so that following grant the patentee is entitled to amend prior year tax returns and receive a refund for having paid tax at a higher rate than that applicable following the grant of the patent, assuming all other requirements for the patent box regime are met in the historical periods.

3. UK patent box regime

We suggest that you take guidance from the UK patent box regime, which in our view effectively addresses the issue referred to above. The UK regime does not actually allow income to be taxed at the lower rate until the patent is granted. However through various elections, this effect can largely be achieved once the patent is granted.

There are two key ways this is achieved:

(a) Qualifying Company - Patent Pending - Firstly a company must be a qualifying company. Where a company is making its first patent application, a company can be treated as a qualifying company if it has applied for a patent that has not yet been granted and would otherwise be a qualifying company. A company can elects into the regime in respect of that patent application so that Patent Box benefits covering the application period may arise when the patent is granted. In other words the company is treated as a qualifying company where it would have been one but for the fact that the right had not been granted at the relevant time. This is not relevant when a company has existing patents and has already elected into the regime; and

(b) Qualifying Income - Patent Pending - Next, the income on the specific patent needs to be included in the regime. A company holding, or who held, a qualifying IP right or an exclusive licence in respect of certain qualifying IP rights can, for the accounting period in which the right was granted, elect to obtain the benefit of the Patent Box on profits arising from exploiting the right prior to the right being granted. This election must be made in writing within 12 months of the fixed filing date of the return for the accounting period in which the right is granted. The election is made on a right by right basis, and covers the whole of the period from the application for grant of the right (or date the licence is granted to the company) to the date the right is granted. This period is limited to up to 6 years before the right is granted with a backstop of when the regime was implemented. Obtaining the full 6 year look back is however predicated on the company having elected into the regime for that period (hence the need for the ability to elect in on the basis of an application if it is the company's first patent). The examples in the HMRC manuals (https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird220540) show how the two elections interact.

4. Filing date vs priority date

The background section states that "only inventions claimed in standard patents granted by IP Australia, which were applied for after the Budget announcement (that is, have a priority date after 11 May 2021), will be eligible". This statement conflates filing dates and priority dates. The priority date can and often is earlier than the filing date (in particular, where the applicant is claiming priority from an earlier overseas patent

application). So the patent box should apply to a patent application made after 11 May 2021 irrespective of what its priority date is (which in any case will only be up to a year earlier than the filing date).

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This submission has been prepared with assistance from Baker McKenzie colleagues Kate Alexander, Helen Macpherson, and Alexandra Stead.

Yours sincerely

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