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Maximizing IP Value at the Crossroads of Protection & Tax Planning

March 28, 2023

Michael S. Lebovitz

Partner

Los Angeles, CA

+1 213 229 5149

mlebovitz@mayerbrown.com

James R. Ferguson

Partner

Chicago, IL

+1 312 701 7282

jferguson@mayerbrown.com

Discussion Topics

- Importance of IP in tax planning
- Recent global tax developments
- Legal risks associated with IP movement
- Transfer pricing risks associated with IP movement
- Importance of collaboration in IP-Tax planning

IP Planning Challenges

- IP is usually the crown jewel asset of a company
- Moving IP for tax purposes creates numerous IP risks
- Legal vs. economic ownership
- Exclusive vs. non-exclusive licenses
- Coordination between Tax and IP is critical

IP as a Tax Value Driver

- By its very nature, IP is easiest function to relocate
- Planning objectives:
 - Isolate and value IP
 - Transfer to lower tax jurisdiction at minimal tax cost
- IP is central to most industries:
 - Life sciences
 - Technology
 - FinTech

IP as a Tax Value Driver

Profit Drivers	%	No Planning	"Golden Age"	Global Agreement
Sales	20	30% = 6%	30% = 6%	30% = 6%
Manufacturing	20	21% = 4.2%	21% = 4.2%	21% = 4.2%
HQ	10	21% = 2.1%	21% = 2.1%	21% = 2.1%
IP	50	21% = 10.5%	5% = 2.5%	15% = 7.5%
Effective Tax Rate	100	22.8%	14.8%	19.8%

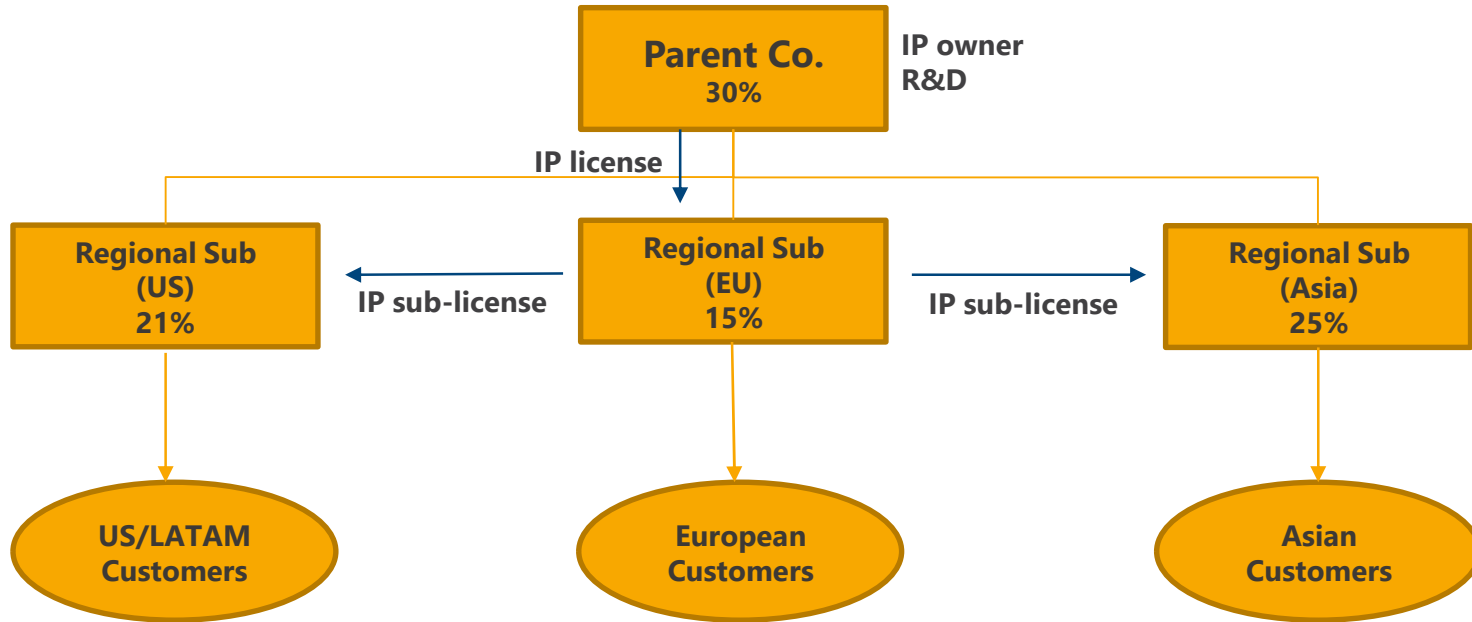
Tax and IP – A Profitable but Challenging Crossover

- “Silicon Valley giants accused of avoiding \$100B in taxes” – *CNBC*
- “Pinning down Apple’s alleged 0.0005% tax rate” – *Bloomberg*
- EU attacks Apple, Amazon, Starbucks, Nike and others on taxes
- “Global tax agreement will set 15% minimum tax rate” - *NYT*
- IP as the common denominator in international tax planning

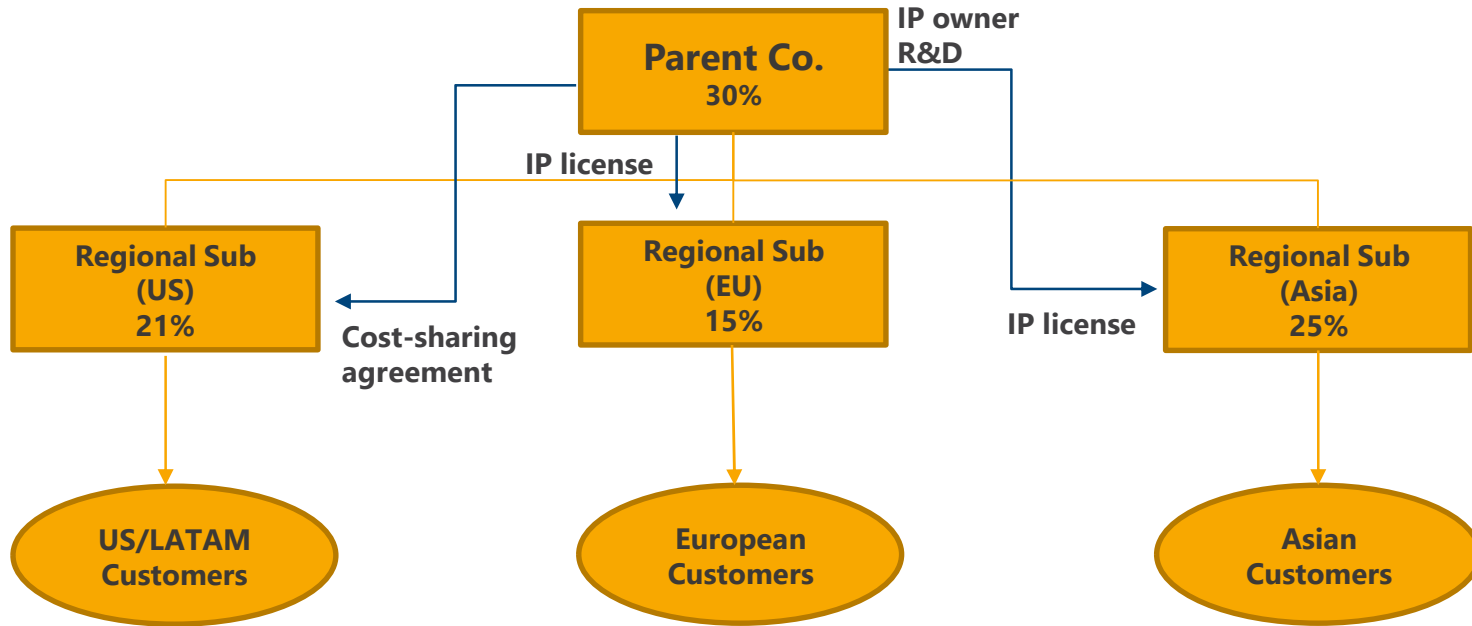
IP as a Tax Value Driver – Impact of the Global Agreement

- Substance required for entity to earn premium profits associated with IP
- Benefits of R&D and other incentives will be reduced in light of global minimum tax
- Tax disputes relating to IP will become multilateral
- Increased transparency will make IP planning visible to public and other stakeholders

IP and Tax – A Profitable, but Challenging, Cross-Over



IP and Tax – A Profitable, but Challenging, Cross-Over

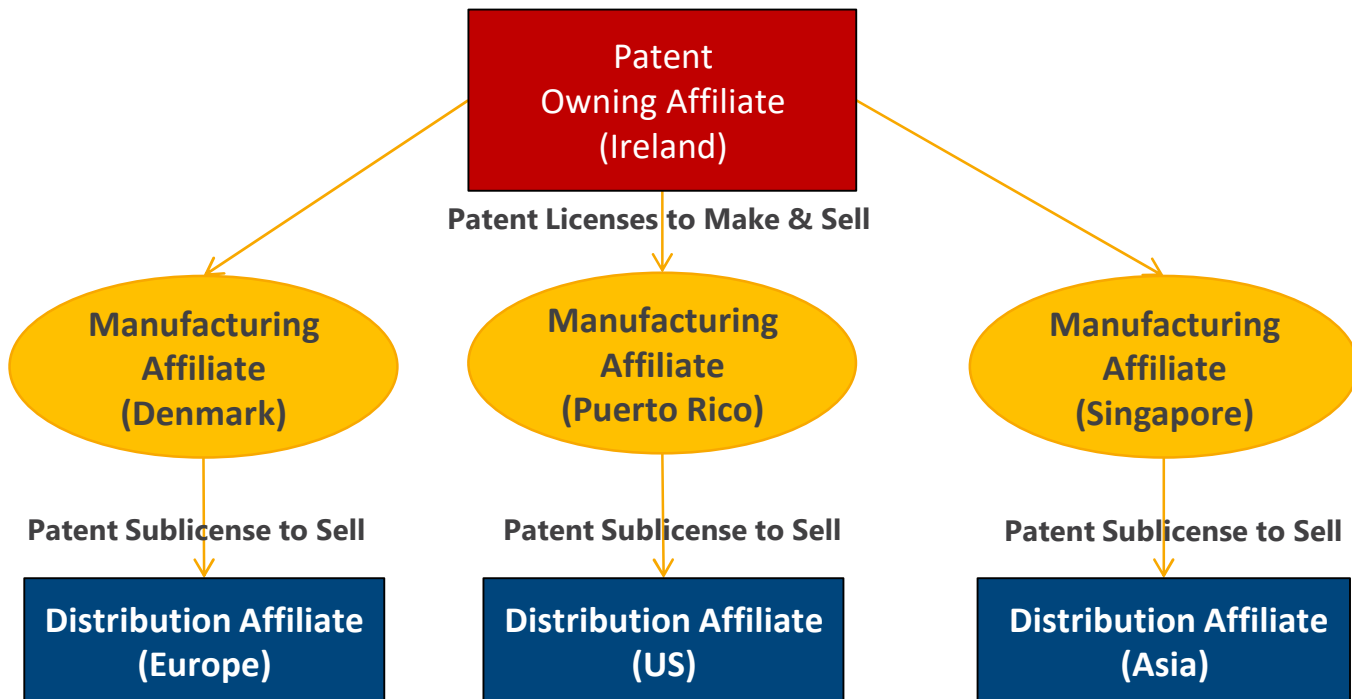


Patent Licensing Structures: An IP Perspective

IP Issues in Patent Licensing

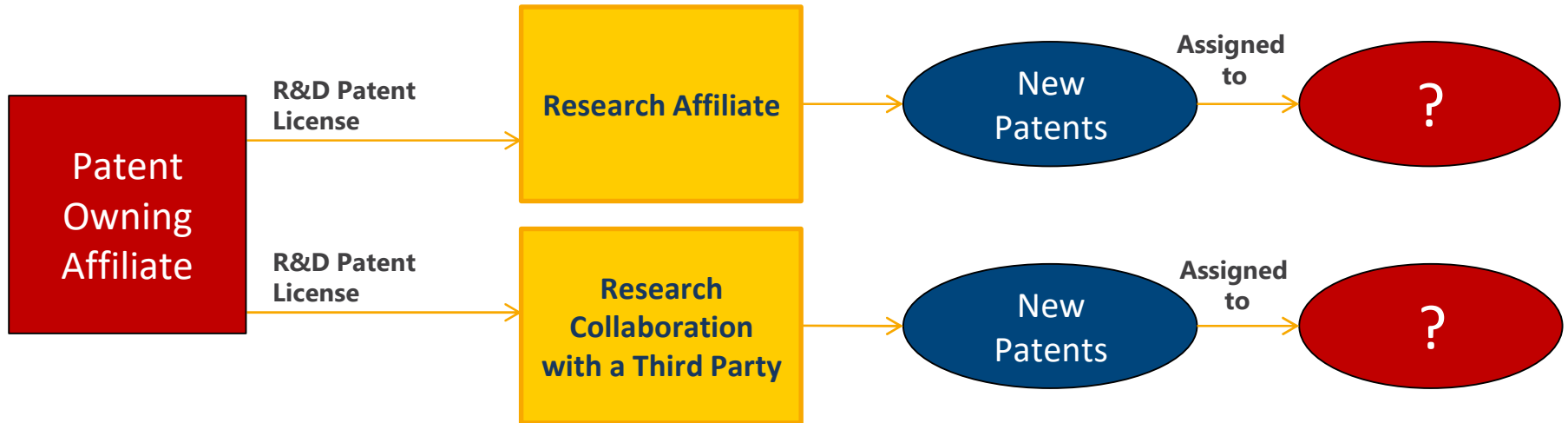
- Conventional Patent Licensing Structures
 - Structures for the Sale of Patented Products
 - Structures for R&D
 - Acquisition of New IP
- Issues in Patent Enforcement

Patent Licensing Structures: Sale of Patented Products



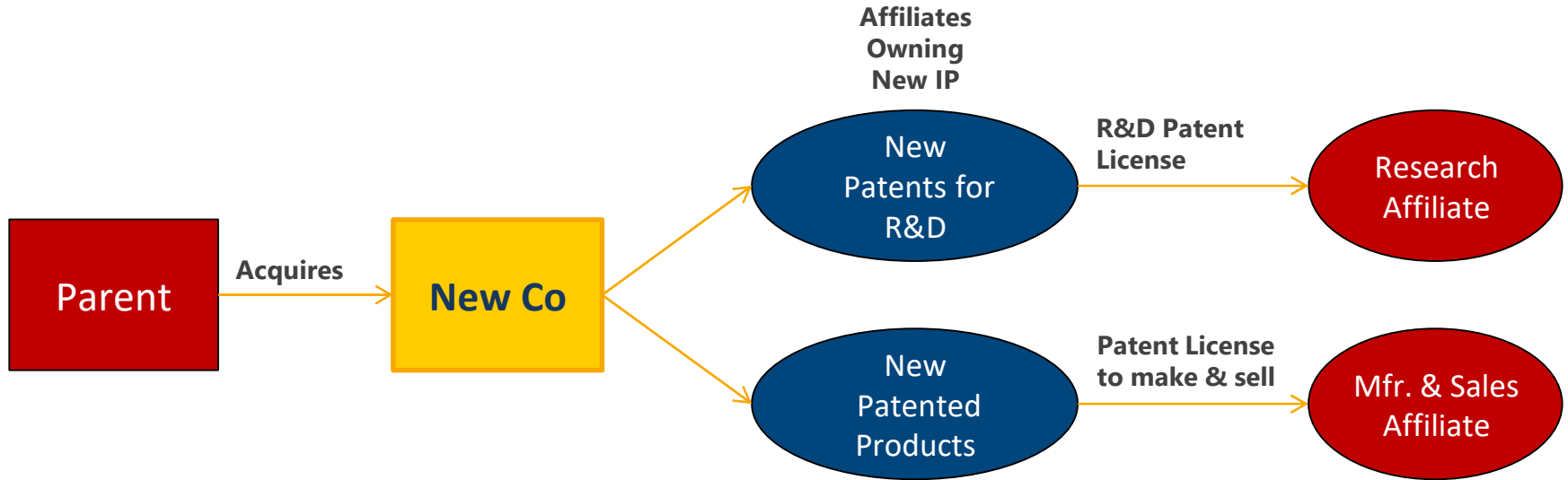
Patent Licensing Structures:

R&D



Issue: Which affiliate will own the new patents?

Patent Licensing Structures: Acquisition of New Company



Issue: Which affiliate will own and license the newly acquired IP?

Issues in IP Enforcement: Standing and Forms of Relief

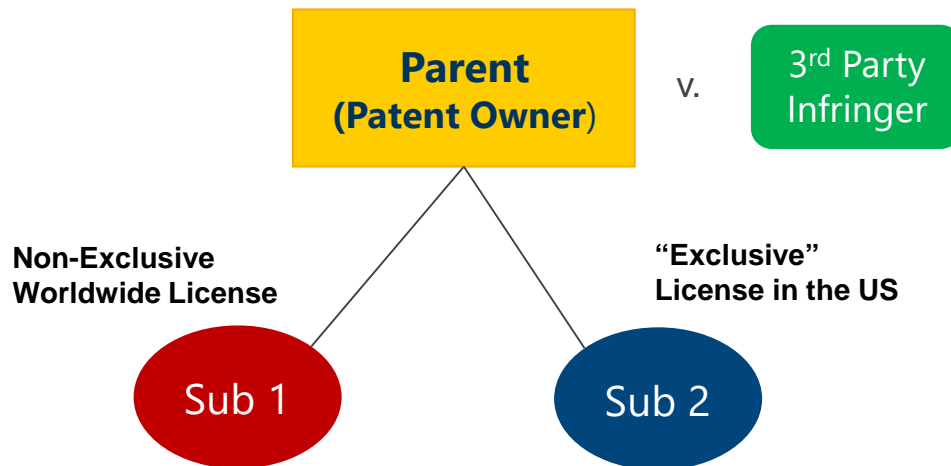
- Patent licensing structures can raise at least two major issues for IP enforcement
 - Standing to Sue Infringers
 - Forms of Relief
 - Recovery of Lost Profits
 - Injunctive Relief

Issues in IP Enforcement: Standing to Sue

- US “Standing” Rules
 - Patent owner must be a plaintiff
 - Exclusive licensee can be a co-plaintiff
 - Exclusive distributor can be a co-plaintiff
 - Non-exclusive licensee cannot be a co-plaintiff
- **Issue:** Does the licensing structure confer standing?

Standing to Sue

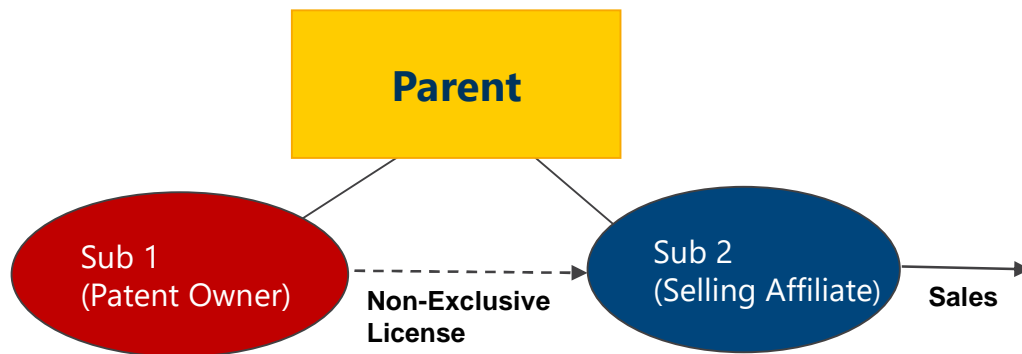
Case 1: No Exclusive License if Another Sub has Worldwide Rights



- Parent argued that it gave an “exclusive” license to Sub 2
- However, the parent had previously gave a non-exclusive worldwide license to Sub 1
- Court held that Sub 2 did not have standing because it was not an exclusive licensee

No Lost Profits

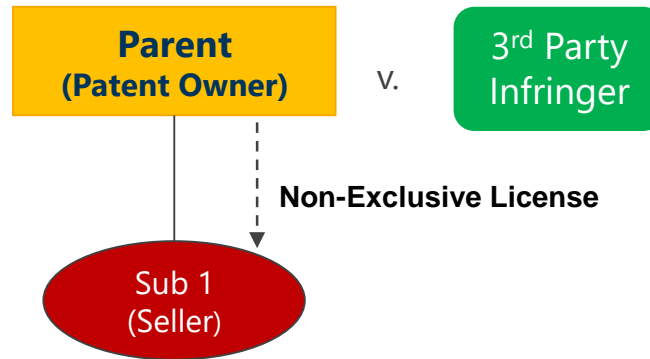
Case 2: No Recovery of Lost Profits if “Selling” Sub is a Non-Exclusive Licensee



- Sub 1 could not recover “lost profits” because it did not sell the product
- Sub 2 could not be a co-plaintiff because it was a non-exclusive licensee
- **Result:** No recovery of lost profits

Recovery of Lost Profits

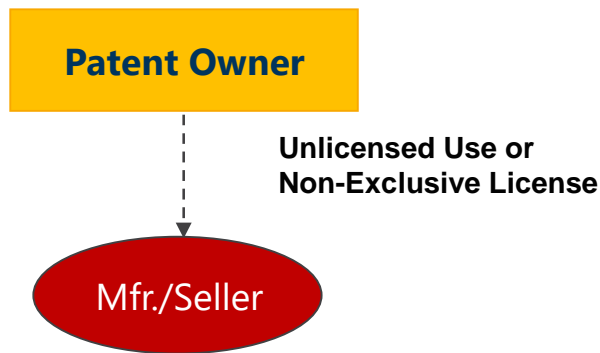
Case 3: Wholly-Owned Sub Not Enough to Show “Lost Profits” for Parent



- Sub 1 could not be a plaintiff because it was only a non-exclusive licensee
- The court rejected the parent’s claim that it “inherently lost” the profits of its wholly-owned subsidiary
- **Result:** No recovery of lost profits

Obtaining Injunctive Relief

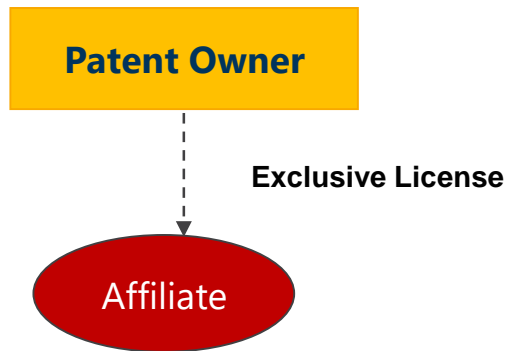
Case 4: No Injunction if IP-Owning Entity Not Selling Product



- If the IP-owner is not selling the product, it may not be able to obtain injunctive relief
- Injunctive relief requires a showing of irreparable harm
- Courts are often reluctant to award injunctive relief to entities that do not sell the patented product

Contribution of IP to an Affiliate

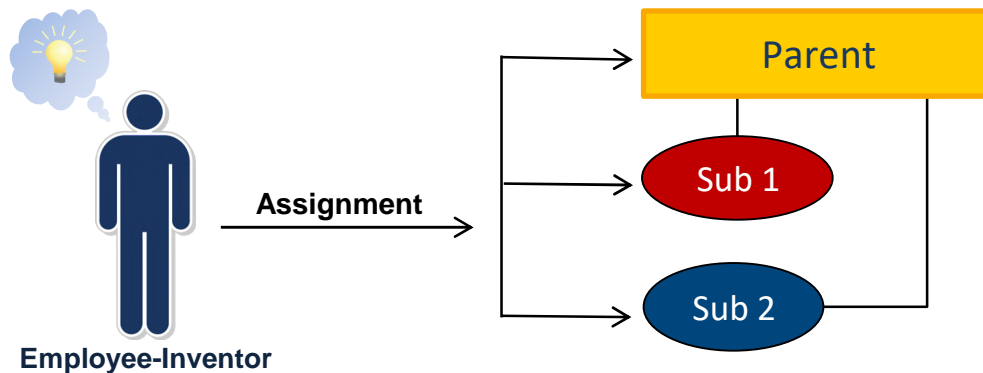
Case 5: Avoiding a “Sale” of IP



- Patent Owner grants exclusive license to Affiliate to convey “all economic and beneficial rights and interest” in patents
- The goal is to ensure that legal title remains with Patent Owner
- As a matter of IP law, Patent Owner must retain some rights, such as the right to control infringement litigation

Employment Agreements: Patent Issues

Employee Agreements re Assigning Inventions



- Employee “hereby assigns” all future patentable inventions to “Company”
- Agreement defines “Company” as the Parent and all its subsidiaries
- Assignment is effective the moment the invention comes into existence
- Issue: Does every subsidiary become a co-owner of the patented invention?

Janssen Biotech, Inc. v. Celltrion, Case No. 1:17-cv-11008 (D. Mass.) (Oct. 31, 2017)

Concluding Thoughts

- Significant risks when IP and Tax do not collaborate
 - Failure to protect IP can lead to inability to enforce and/or recover lost profits
 - Failure to achieve tax structure objectives
 - Global tax audits
 - Reputational risk