WRAYS

SUPPORTING INNOVATION 100 1920-2020

16 August 2021

Mr Paul Fischer
Corporate and International Tax Division The Treasury
Langton Crescent
PARKES ACT 2600

**By email: PatentBoxConsultation@treasury.gov.au**

Dear Mr Fischer

**Patent Box Review**

Thank you for the opportunity to provide inputs in response to the Patent Box Discussion paper on policy design, July 2021. We have annexed our responses to specific questions in the Annexure and make some general comments below.

## 1. About Wrays

Founded in 1920, Wrays is one of the largest IP specialist firms in Australia with offices in Perth, Adelaide, Sydney and Melbourne. Wrays represents Australian and foreign clients across the technology spectrum providing a patent and trade mark attorney service, a law firm and corporate advisory service. Wrays has long had a keen interest in effective IP commercialisation and provides regular educational events assisting clients with their commercialisation efforts.

## 2. Observations on Introduction of a Patent Box

*General*

2.1 While welcoming the introduction of a Patent Box, Wrays would have liked to have seen the patent box apply across all technologies, as has occurred overseas. The UK model has been in place, in one form or another, for over a decade and covers the technology spectrum. It provides an excellent model for a Patent Box scheme tempered by effective responses to criticisms made of Patent Box schemes, mainly because of the mobile IP issue though that will not be an issue if the FHTP 'modified nexus test' is met. Wrays would eventually like to see the same broad range of eligible technologies for Australia.

*Medical and Biotechnology Patents*

2.2 A related issue to 2.1 is, if the Patent Box is to be limited to medical and biotechnology inventions, how are the boundaries to be set. The international patent classification may well give misleading results for some technologies that have application to medical and biotechnology. It may therefore be better to have a nexus between taxable income and a medical or biotechnology application rather than detailed patent classification which could well result in boundary disputes. Such classification issues create significant cost in the trade mark realm where classification may be critical in defining the limits of enforceability of a trade mark. These sorts of classification issues have not created

Level 7, 863 Hay Street
Perth, WA 6000
AUSTRALIA
T +61 8 9216 5100
F +61 8 9216 5199

PO Box Z5466
St Georges Terrace
Perth, WA 6831

Sydney
Melbourne
Perth
Adelaide
wrays.com.au

issues to date but may in future. We have provided further observations in the Annexure.

2.3 In the case of medical and biotechnology inventions, there is typically a long to very long lead time from invention to commercialisation. This arises from regulation of pharmaceuticals and medical devices. Regulation of pharmaceuticals, in particular, may create a lead time of 10 to 15 years. A Patent Box will therefore not assist commercialisation for many years yet so its incentive effects will not be felt in the short to medium term.

*Clean Energy Patents*

2.4 Wrays supports the extension of the Patent Box to clean energy related patents which are secured by a wide range of enterprises from sole traders through to multi-national companies. Again, use of a patent classification rather than a commercial application test may present issues for patents that are applied in the clean energy sector but such applicability is not apparent from the patent classification. Examples are provided in the Annexure.

*Revenue Streams and Nexus to Australia*

2.5 Wrays supports the nexus between R&D in Australia and access to Patent Box concession. This is effectively mandatory due to agreements reached in relation to BEPS.

2.6 Wrays favours a broad test for revenues qualifying for the Patent Box tax concession. As long as taxable revenue can be linked to an Australian patent or patent family, this should be subject to the Patent Box concession. However, this revenue could result simply from sales of patented inventions into Australia rather than manufacturing which would be a desirable goal, as demonstrated for example by the Advanced Manufacturing Initiative. This could happen even if the R&D is done in Australia for various reasons whether cost or strategic reasons. One possible way to address this problem is to offer a deeper Patent Box concession for income derived from manufacturing in Australia subject to Australian patents. This could, for example, involve a two tier system in which taxable income deriving other than from manufacture in Australia is taxed at a 17% rate and taxable income deriving from manufacture in Australia is taxed at a 15% rate.

*Patent Procedure and Access to Patent Box*

2.7 The scheme applies to Australian patents with a priority date later than 11 May 2021. There are opportunities to apply the Patent Box to inventions with an earliest priority date earlier than 11 May 2021 by the expedient of filing further provisional(s) or other eligible applications to features not disclosed in the earliest filing, such features not necessarily being novel or inventive of themselves. Claims to such features, in a later standard patent application, would be provided with a priority date later than 11 May 2021 and would be eligible for the Patent Box concession.

2.8 Although innovation patents cannot be filed with a filing date later than 25 August 2021, the last innovation patent will expire on or about 25 August 2029. Innovation patents should be eligible for the Patent Box concession and, particularly where filed by Australian applicants, may often be directly linked to manufacturing in Australia. The writer is aware of innovation patents of this type in the mining services sector and there are probably numerous further examples.

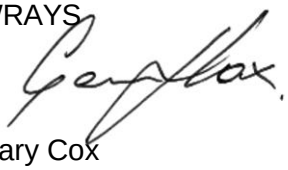
WRAYS

2.9 Surveys by IP Australia have demonstrated that the average patent life is 11-12 years, rather than the maximum available term of 20 years. There seems to be a case for the Patent Box concession to apply even where a patent has ceased if the former patentee can demonstrate a link between the ceased patent and the taxable income.

## 3. Conclusion

Wrays has appreciated the opportunity to respond to the Patent Box Discussion Paper. Please do not hesitate to contact the undersigned should you wish to discuss any of the observations provided in this submission.

Yours sincerely
WRAYS



Gary Cox
**Principal**

**T** +61 8 9216 5100
**E** Gary.Cox@wrays.com.au

**Encl: Annexure**

WRAYS

SUPPORTING INNOVATION 100 1920-2020

**Submission in Response to Patent Box Review**

*Question 1* *What features of patent boxes in other jurisdictions are most significant and important for designing the Australian patent box to support the medical and biotechnology sectors?*

- The UK model is apposite and we note its broader scope. The UK model has been associated with a 10% increase in IP related investment in the UK. Wrays supports this as the best model though features of the Israeli model are also apposite as discussed below.
- A broader definition of IP could be useful and avoid difficulties of classification where regulation is required. For example, qualification for the Patent Box relief could be made contingent on a regulatory listing (as in Israel).

*Question 2* *Are patents applied for by medical and biotechnology companies with domestic R&D operations generally Australian standard patents?*

- The standard patent system would be most widely used.
- Innovation patents will be phased out from 25 August 2021 so there will be no other form of qualifying IP than standard patents from that date. Window from budget announcement (based on priority date to innovation patent deadline is short) so innovation patents will be a minor issue (though they could be filed as divisionals out of standard patent applications with a priority date later than 11 May 2021).

*Question 3* *In instances where an invention is patented in other jurisdictions but not in Australia, is there a way of judging whether the scope of claims in these patents would be substantially similar to the scope of claims in a standard patent that would have been granted in Australia?*

- This will depend on strategy. However, where US or European patent applications have been filed, it is cost efficient and very common for Australian claims to be amended to align with US and European granted patents or even pending patent applications.
- A significant number of standard patents are likely to have the same claim scope as in Europe or US for reasons of convenience.
- In addition, IP Australia examination practice tends to rely on European or US examination results where available though increasingly IP Australia examines first, at least in some areas of technology.

Level 7, 863 Hay Street
Perth, WA 6000
AUSTRALIA
T +61 8 9216 5100
F +61 8 9216 5199

PO Box Z5466
St Georges Terrace
Perth, WA 6831

Sydney
Melbourne
Perth
Adelaide
wrays.com.au

*Question 4* *What is the best approach to provide certainty around access to the regime for the medical and biotechnology sectors?*

- An option to tie to regulatory listing in addition to patent nexus could be useful. This would avoid difficulties of classification. The patent classification is a complex document which can be obscure even for patent practitioners well versed with it.

*Question 5* *What are the core concepts/applications that need to be covered by any definition of the medical and biotechnology sectors for the purpose of defining access to the patent box?*

- We would recommend the income streaming approach as patents that may not necessarily be filed in a class relating to medical technology or biotechnology may still be very valuable in these sectors. An incentive for R&D that will be directed to applications in these sectors is advised. Examples could include:
    - new materials for use in medical devices;
    - communications technology that has significant application in the medical and biotechnology sectors;
- Similarly to the R&D tax incentive, access to concessional corporate tax rates could be made dependent on credible use cases that link new technology to applications in the medical or biotechnology sectors.
- Although IP Australia has suggested detailed definition for "medical devices" in past literature, such complex definitions would lead to confusion and excessive uncertainty. We recommend that this be avoided.
- For inventions subject to regulation, for example by the TGA, access to the Patent Box concession could be tied to a regulatory listing.

*Question 6* *What sort of businesses own patented inventions relating to low emissions technologies, and would introducing a tax concession through a patent box support the clean technology energy sector?*

- The full range of companies would patent inventions relating to low emissions technologies, from SMEs to MNCs.
- A concessional tax rate may promote further IP related investment in this sector noting that a wide range of grant and subsidy programmes already seem to be available though these are more aimed at encouraging R&D in the broad.

*Question 7* *Do patents play a strong commercial role in the clean technology energy sector, or are other strategies for using IP more important (such as being first to market)?*

- Patents are certainly filed to protect IP in clean energy, e.g. for removal of carbon dioxide from natural gas, new wind turbine designs etc. However, a quick review of IP Australia records located relatively few patent records with keywords such as "decarbonisation" and "low emissions" but relatively high number of records for keywords including "hydrogen" and "clean energy". It may be inferred that a tax incentive tied to decarbonisation and low emissions would lead to increased activity, similarly to the hydrogen rush that is presently ongoing.

How to define *'clean technology energy sector'*

The definition should be broad. This should capture energy production processes and apparatus which:

- Do not produce carbon dioxide; or
- Involve capture or destruction of carbon dioxide.

*Question 8* *What factors drive decisions about the location of clean technology R&D?*

- Planning for a decarbonised economy.
- Access to subsidies and tax incentives.
- R&D costs generally.
- Access to sources of renewable energy: e.g. wind, solar, tidal

*Question 9* *How would the clean technology sector best be defined for the purposes of a patent box?*

An option for a definition would include energy production processes and apparatus which:

- Do not produce carbon dioxide; or
- Involve capture or destruction of carbon dioxide.

*Question 10* *Would a patent box be an effective way of supporting the clean technology sector? Are there other options available to encourage growth in this sector?*

We believe so. Please see our response to Question 7 and UK HMRC research indicating a 10% increase in IP related investment with a Patent Box in place.

*Question 12 How much R&D activity (related to patented inventions) occurs outside Australia?*

- Most Australian patents, in excess of 90% are filed by overseas based applicants. If the number of patents serves as a reasonable proxy for R&D, then most is conducted overseas. This may not matter if the Patent Box attracts the commercial investment back to Australia. UK experience suggests that this may well be the case.
- However, Australian businesses are innovative and do conduct research in medical, biotechnology and clean energy research in Australia. A concessional tax rate may well encourage more IP related investment in these sectors as well as a greater degree of competition against overseas competitors.

*Question 17 To what extent are Australian-based manufacturing processes subject to their own patents in the medical and biotechnology industry?*

- Companies do patent their own manufacturing processes though it is likely more common for the patent protection to focus on apparatus or compositions as infringement of apparatus or composition patents is typically easier to detect than for manufacturing processes.
- It does seem that a number of companies (e.g. Resmed, ) seek to manufacture off-shore for a variety of reasons including:
    - operating costs in Australia
    - access to capital
    - proximity to markets

*Question 18 What will be the implications of targeting the patent box to new patented innovations (i.e have a patent priority date after 11 May 2021?)*

This restriction will certainly reduce the value of the tax concession in early years of the programme though it will be factored into IP strategy going forward. However, medical and biotechnology inventions typically face regulatory hurdles such that revenue tied to associated patents may not appear until 10 to 15 years after filing. Therefore, a significant amount of time will elapse before the patent box incentive effects, as opposed to other incentives such as grants and the R&D tax concession, are enjoyed. Leaving aside a difficulty of classification, it would be useful to tie access to the tax incentive to a regulatory listing, pertinently by the TGA.

*Question 20 What types of patent-related revenue should be eligible for the patent box?*

We prefer the post 2016 UK model which is broader than proposed for Australia. Prefer option 2: apply an 'income streaming' test whereby all patented inventions qualify for the regime but only eligible profits attributable to activity in the medical and biotechnology sectors would receive the concessional rate.

*Question 29* *Are there any other issues you would like to raise for consideration in the design of the patent box?*

R&D is important and encouraging it will add value for Australia. However, a pressing need is to build manufacturing capacity in Australia. One way to do this might be to have a two tier tax concession providing a lower tax rate for companies with manufacturing operations in Australia and a higher tax rate for those companies that may receive profits for inventions patented in Australia but manufacture elsewhere.

We have also provided some other suggestions in our covering letter.