

LAW SOCIETY SUBMISSION



PUBLIC CONSULTATION: THE KNOWLEDGE DEVELOPMENT BOX

TAX POLICY DIVISION
DEPARTMENT OF FINANCE

APRIL 2015

ABOUT THE LAW SOCIETY OF IRELAND

The Law Society of Ireland is the educational, representative and regulatory body of the solicitors' profession in Ireland.

The Law Society exercises statutory functions under the Solicitors Acts 1954 to 2011 in relation to the education, admission, enrolment, discipline and regulation of the solicitors' profession. It is the professional body for its solicitor members, to whom it also provides services and support.

The headquarters of the organisation are in Blackhall Place, Dublin 7.

1. Introduction

- 1.1. The Department of Finance has requested views on specific questions regarding the proposed introduction of a competitive income-based tax regime for intellectual property, in what will be known as the Knowledge Development Box.
- 1.2. The Law Society of Ireland has confined its submission to Question 1 of the Consultation and hopes to assist the Department in relation to the technical and legal aspects of Intellectual Property definitions, and the possible scope of qualifying assets.
- 1.3. The Society reserves its position in relation to all other aspects of the consultation.

2. 'Patents and assets that are functionally equivalent to patents'

Consultation Question 1: It appears likely that the benefits of income-based IP regimes will be limited to income derived from "patents and assets that are functionally equivalent to patents" (see paragraph 8 Annex I of the Consultation Document) while marketing intangibles will be excluded. Please provide a description of the assets that you believe to be functionally equivalent to patents and the basis for that belief.

- 2.1. The Law Society notes the Department's comment that, based on EU and OECD considerations, *"the only IP assets that could qualify for tax benefits under an IP regime are patents and other IP assets that are functionally equivalent to patents, i.e. if those assets are both legally protected and subject to similar approval and registration processes, where such processes are relevant."* It is obviously important to consider carefully what is to be understood here by the terms *"patents"* and *"assets that are functionally equivalent to patents"*.
- 2.2. The following comments are restricted to a consideration of the legal interpretation of the intellectual property rights that may or may not fit within the proposed definition and do not extend to what should or should not be included from an economic policy perspective.
- 2.3. **"Patents"**
 - 2.3.1. This category could include standard Irish patents whether obtained through application in Ireland, or by way of application under the European Patent Convention designating Ireland.
 - 2.3.2. It could also apply to short term Irish patents, but only where a granted short term patent has been examined so that it is enforceable by the Irish courts and is therefore legally protectable (note that short term patents are granted without examination but must be examined before they are enforced).
 - 2.3.3. It is important to note that short term patents that have not been examined will not fulfil the criteria that they are legally protected and have been subject to an approval

process. For this reason it will be necessary to either expressly exclude short term patents from the definition, or to expressly provide that short term patents must have been examined before they can qualify for tax benefits under the Knowledge Development Box regime.

2.3.4. It is likely that by the end of 2016 Irish law will protect patents that have been issued under the new Unitary Patent system. Such patents will both be legally protectable and have been subject to approval and registration processes, and will be enforceable in most European jurisdictions, including in Ireland (subject to the outcome of the referendum).

2.3.5. Patents granted under this new patent system should fall within the definition of “patents” for the purposes of the Knowledge Development Box where the development leading to a grant of the Unitary Patent has been undertaken in Ireland.

2.4. **“Assets that are functionally equivalent to patents”**

2.4.1. On the basis that assets or rights that fall into this category must be both legally protected and subject to similar approval and registration processes as the standard patent system, then other categories of qualifying assets will be extremely limited. Brief comments on the various possible rights are set out below.

2.4.2. *Registered Designs*

On one view registered designs which are both legally protectable and subject to an approval and registration process might be considered to be functionally equivalent to patent rights, at least in circumstances that they protect more than two dimensional surface design. However their inclusion is clearly arguable as the design right system is in principle intended to protect elements of aesthetic design and not elements of invention.

2.4.3. *Plant Breeder’s Rights*

Plant Breeder’s Rights are possibly a category of right that could be said to be functionally equivalent to a patent right as these rights are subject to an approval and registration process.

2.4.4. *Topography (Semi-Conductor) Rights*

Although there is some reason to suggest that these rights are per se “functionally equivalent to patents”, they are not subject to an approval or registration system and therefore will not fall into the suggested category of qualifying assets.

2.4.5. *Copyright*

From a legal perspective and based on a requirement for an approval and registration process, copyright in Ireland will not fall into the category of “assets that are functionally equivalent to patents”. We note in this regard that based on

international treaty obligations there are no formalities required for the protection of copyright in Ireland (and therefore no approval or registration process). Also, in general terms, copyright protects the detailed expression of an idea and not a new and inventive concept in the manner of patent protection.

We acknowledge that software is mainly protected by copyright. If the Government's intention is to include software copyright within the definition of qualifying assets (even though it does not fulfil the approval and registration requirements), then this will need to be included expressly within the definition of qualifying assets.

2.4.6. Database Rights

Although database rights are legally protectable in Ireland, they are not subject to an approval and registration system. Accordingly they would not appear to fall within the scope of the definition of qualifying assets as currently intended.

2.4.7. Confidential Know-how

Neither will confidential know-how qualify according to these requirements. Although confidential know-how may in certain cases be said to be "functionally equivalent to patents", there is no approval or registration process required for the protection of confidential know-how in Ireland.

3. Conclusion

- 3.1. As noted above, the expression "assets that are functionally equivalent to patents" is neither clear nor legally certain and the requirement that such rights be "subject to similar approval and registration processes, where such processes are relevant" only serves to compound the degree of ambiguity.
- 3.2. To avoid legal uncertainty, we recommend that any definition of qualifying assets should expressly list the categories of recognised intellectual property rights that are intended to be subject to the Knowledge Development Box regime.
- 3.3. The Law Society is available to clarify the submissions made above and to assist the Department in its consideration of the issue.

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