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Innovation Fee: Surcharge on U.S. Patent & Trademark Protection

The United States Patent and Trademark Office (PTO) announced that, as part of President Obama's recently proposed budget for Fiscal Year (FY) 2011, the PTO's budget would be \$2.322 billion, a 23 percent increase over FY 2010. This significant budget increase is part of PTO Director Kappos' long term plan for increasing PTO examination efficiency and decreasing the backlog of applications. The proposed budget includes provisions that (i) allow the PTO to assess a 15 percent surcharge on patent fees in FY 2011 and (ii) grant the PTO (rather than Congress) the authority to set and adjust patent and trademark fees. The provisions could have a significant effect on future patent and trademark costs.

The first proposed fee provision would impose a 15 percent surcharge on all patent fees authorized under 35 U.S.C. § 41(a), (b), and (d), including Filing Fees, Search Fees, Examination Fees, Issue Fees and Maintenance Fees. This surcharge would, of course, be in addition to the underlying patent fees authorized by law. The money collected from the surcharge, estimated to be in excess of \$220 million, would be available to the PTO for all its authorized activities and operations, without fiscal-year limitation. One suggested rationale for this surcharge is to insulate the PTO from unexpected budgetary shortfalls, such as the \$200 million shortfall that occurred in the recently ended FY 2009. The proposed 15 percent surcharge is allegedly slated to be an interim measure applicable to FY 2011 only.

The second proposed fee provision would transfer fee-setting authority to the PTO. The current language of the proposed provision indicates that this would only be effective for FY 2011, but Director Kappos and Secretary of Commerce Gary Locke have made clear their belief that long-term or permanent PTO fee-setting authority is an important part of the efficient, sustainable PTO model Director Kappos envisions for the future. Under this proposed provision, the PTO would have authority to set and adjust those patent and trademark fees already authorized by law, provided that the fee amounts in the aggregate are set at a level to recover PTO costs for processing activities, services and materials relating to patents and trademarks, respectively. Thus, while the PTO would gain fee-setting authority, the PTO's ability to raise fees would allegedly be limited to covering its actual costs. Theoretically, this would prevent a hidden innovation tax where excess PTO revenue was diverted by Congress into the general U.S. Treasury to fund unrelated government activities.

But one potential concern associated with the proposed PTO fee-setting authority provision is that the fees set and collected by the PTO would be available for the PTO's use only to the extent provided in subsequent appropriations bills – meaning that, even though the PTO could set its fees at a level to recover actual costs, the revenue from the fees could nevertheless be readily diverted away from the PTO by Congress in future appropriations bills. For this reason and others, some intellectual property organizations like the Intellectual Property Owner's (IPO) Association oppose the proposed fee-setting authority provision.

Of course, the fee-setting authority provision, as well as the 15 percent surcharge, are merely proposals pending before Congress at this time. The President's budget proposal must still pass through the tortuous Congressional negotiations and approval process, and other factors may come into play that might alter the scope and extent of these proposals. For example, Congress has traditionally been reluctant to cede its fee-setting authority and it is unclear if it would be willing to do so in this case.

Additionally, the necessity of a 15 percent surcharge for FY 2011 may depend on the outcome of the current FY 2010. The PTO is currently projecting revenue collections to be \$115 – \$130 million above budget for FY 2010. As it stands now, however, Congress has the option, and might be inclined, to divert this excess revenue away from the PTO in these difficult economic times. In light of this uncertainty, Director Kappos stated recently that the 15 percent figure is not a hard number and is dependent on what Congress decides to do with the excess revenues for FY 2010. If the PTO is allowed to retain and use the projected excess revenues of FY 2010, the surcharge percentage could be correspondingly reduced depending on how quickly the legislation is implemented.

Thus, the ultimate outcome of these proposals remains to be determined. Nevertheless, the possibility of future fee increases is worth noting when setting your patent and trademark strategy and budget, and consideration might be given to accelerating higher priority filings to avoid possible fee increases.

If you have any questions regarding your specific situation, feel free to contact any of the [patent lawyers](#) at Haynes and Boone, LLP.

[Kristen Buttram](#)
214.651.53261
kristen.buttram@haynesboone.com

[Andrew S. Ehmke](#)
214.651.5116
andy.ehmke@haynesboone.com