

Tax Experience of American Corporations Owning Numerous Patents *

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SUMMARY

This interim report gives results of a questionnaire survey addressed to American corporations that in 1955 each owned 150 or more patents. Detailed replies were received from corporations that owned more than 50,000 U.S. patents and more than 43,000 foreign patents at the end of 1959. The report deals primarily with the tax experience of these reporting corporations owning numerous patents. Problems of obtaining capital-gains treatment from sale or exclusive licensing of owned patents are reported. Such sales or licensing are not typical of large corporation practice. Experience in qualifying research and development costs as current tax deductions are also examined. The report makes rough estimates of income from patent licensing accruing to all U.S. corporations, and contrasts the tax experience of large corporations owning patents with that of individual inventors.

What tax problems do American corporations that own extensive patent assets most frequently encounter? How do tax considerations shape their administration of these assets, if at all? Is there uniformity of tax experience among American corporations with regard to earnings from their intangible industrial property, or diversity? Are transactions in patents and related industrial property frequently or only rarely tax-motivated? Does experience indicate any need for change in our income-tax rules as they apply to patents and knowhow? These and similar questions are typical of those asked by people who have thought deeply about our tax and patent systems and their interrelationship.

Such questions as these touch important issues about which much has been written and spoken and about which, as with all complex issues, there may be differences of opinion among reasonable men. The questions themselves emerge from the circumstances that we have, on the one hand, formal income-tax rules that are intended to apply uniformly to all comparable situations. These rules derive from statutory language, from regulations amplifying this language, and from litigated cases. We have, on the other hand, individual taxpayer experiences with

* This research report was written by Dr. Bangs. Dr. Bangs and Mr. Creed are members of the Foundation's Research Staff.