

PATENT INCOME EXEMPTION

Exemption for Patent-derived Income

Effective January 1, 2008, certain income derived from qualified patents and earned by a taxpayer are exempt from taxation.

The Tax Exemption for Patent-derived Income defines qualified patents to include only utility patents and plant patents. The total amount of exemptions claimed by a taxpayer in a taxable year may not exceed \$5 million.

The exemption provides that a taxpayer may not claim an exemption for income derived from a particular patent for more than 10 taxable years. The exemption percentage begins at 50 percent of income derived from a qualified patent for each of the first five taxable years, and decreases over the next five taxable years to 10 percent in the 10th taxable year.

It also specifies that a taxpayer is eligible to claim the exemption only if the taxpayer is domiciled in Indiana and is: either an individual or corporation with not more than 500 employees; or is a nonprofit organization or corporation.

The Tax Exemption for Patent-Derived Income is established by IC 6-3-2-21.7.

The patent-derived income that is exempt under the bill includes:

- Licensing fees or other income received from the use of a patent
- Royalties received from the infringement of a patent
- Receipts from the sale of a patent
- Certain income from the taxpayer's own use of the qualified patent to produce the claimed invention

CLAIMING THE EXEMPTION

A taxpayer may claim the exemption for 10 years with respect to a particular patent. The total amount of exemptions for patent-derived income that a taxpayer may claim in a taxable year is \$5 million.

Year the exemption is Claimed for a Particular Patent	Percent of Patent-Derived Income Exempt
Years 1 through 5	50%
Year 6	40%
Year 7	30%
Year 8	20%
Year 9 and 10	10%

ELIGIBILITY

In order to receive the Patent-Derived Income Tax Exemption, the recipient must be a "qualified taxpayer," defined as: an individual or corporation domiciled in Indiana with 500 or fewer employees, including employees in the individual's or corporation's affiliates; or a nonprofit organization or nonprofit corporation domiciled in Indiana.